



# International Journal of Social Sciences

Caucasus International University  
Volume 4, Issue 1

Journal homepage: <http://journal.ciu.edu.ge/>

DOI: <https://doi.org/10.55367/GMVW2326>



*Conference proceedings – “International Scientific Conference on Innovation and Entrepreneurship” organised by Caucasus International University  
Held on February 9-11, 2024 in Tbilisi and Telavi*

## **The Impact of Working Capital Management on Profitability of Small and Medium Enterprises: The Case of Wine-Producing Companies of Georgia**

Tea Kasradze <sup>1</sup>

PhD in Economics, Professor  
Caucasus International University

Papuna Gikorashvili <sup>2</sup>

PhD student, Caucasus International University

### **A B S T R A C T**

The present study is a critical analysis of Net Working Capital (NWC) management in a framework with the different categories of SMEs with respect to its impact on profitability, particularly on Net Profit and ROA. The research goes on to investigate how NWC influences the financial performance indicators in small and medium enterprises (SMEs), knowing that efficient management of working capital is the key to business sustainability and growth. The paper will show some nuanced insights into how working capital practices affect the bottom line and asset utilization efficiency ROA.

By the comprehensive analytic approach, this research is meant to integrate methodologies previously applied both in Georgian and international contexts to outline a nuanced understanding of the dynamics in question. It will analyze NWC's ratio to total assets and the positive relationship with ROA, along with the relationship between NWC and Net Profit, thus presenting a complete picture of the financial health and operational efficiency of SMEs.

The research is expected to bear deep insight into the management of working capital, indicating how strategic financial planning plays a crucial role in enhancing the profitability of the company and asset utilization. These tailor-made recommendations will be a guiding light for the SME stakeholders in their endeavor to optimize their working capital practices as part of their aspiration to bolster financial

<sup>1</sup> tea.kasradze@ciu.edu.ge

<sup>2</sup> papuna.gikorashvili@ciu.edu.ge

outcomes. Augmenting knowledge already in circulation, this study becomes an implementable roadmap to practical financial decision-making, especially in the context of the myriad of SME sectors.

The modified abstract captures the adapted research focus, showing the significance of NWC management in driving profitability and efficient asset utilization across SMEs. It sets grounds for a thorough analysis of the role of working capital in providing health and efficiency within finances and operations, giving valuable information and guidelines for small and medium businesses in the sphere of planning and managing strategic financials.

---

**Keywords:** *Working capital management, Profitability, Net income, Net income margin, Georgian wine industry, Liquidity management.*

**საბრუნავი კაპიტალის მართვის გავლენა მცირე და საშუალო საწარმოების მომგებიანობაზე:  
საქართველოს ღვინის მწარმოებელი კომპანიების მაგალითი**

თეა კასრაძე  
ეკონომიკის დოქტორი, პროფესორი  
კავკასიის საერთაშორისო უნივერსიტეტი

პაპუნა გიქორაშვილი  
დოქტორანტი, კავკასიის საერთაშორისო უნივერსიტეტი

**ა ბ ს ტ რ ა ქ ტ ი**

წინამდებარე ნაშრომი წარმოადგენს წმინდა საბრუნავი კაპიტალის (NWC) მართვის კრიტიკულ ანალიზს მცირე და საშუალო ზომის საწარმოებში (SME), მისი გავლენის კვლევას მომგებიანობაზე, განსაკუთრებით წმინდა მოგებასა და აქტივების უკუგებაზე (ROA). ნაშრომი სწავლობს NWC-ის მოქმედებას ფინანსურ მაჩვენებლებზე მცირე და საშუალო საწარმოებში, რადგან ვთვლით, რომ სამუშაო კაპიტალის ეფექტური მენეჯმენტი არის ბიზნესის მდგრადობის და ზრდის ძირითადი გასაღები.

ყოვლისმომცველი ანალიტიკური მიდგომით და ქართულ და უცხოურ კვლევებში გამოყენებული მეთოდოლოგიების ინტეგრირებით ნაშრომში გაანალიზებულია NWC-ის დამოკიდებულება მთლიან აქტივებთან და ROA-სთან, ასევე NWC-სა და წმინდა მოგებას შორის, რითაც წარმოდგენილია სრული სურათი მცირე და საშუალო ბიზნესის ფინანსური სიჯანსაღისა და ეფექტიანი საქმიანობის შესახებ. კვლევა ხაზს უსვამს სტრატეგიული ფინანსური დაგეგმვის მნიშვნელოვან როლს კომპანიის მომგებიანობის და აქტივების გამოყენების გაუმჯობესებაში. მიღებული რეკომენდაციები იქნება გზამკვლევი SME-თვის მათი საბრუნავი კაპიტალის ოპტიმიზაციის მცდელობებში და ფინანსური შედეგების გაძლიერების მისწრაფებაში.

*საკვანძო სიტყვები: სამუშაო კაპიტალის მენეჯმენტი, მომგებიანობა, წმინდა მოგება, წმინდა მოგების მარჟა, ქართული ღვინის ინდუსტრია, ლიკვიდობის მართვა.*

## 1. Introduction

The strategic management of working capital is paramount for the financial health and operational efficacy of small and medium-sized enterprises (SMEs). Within the sphere of corporate finance, judicious management and allocation of working capital are essential not only for maintaining liquidity but also for enhancing profit margins and investment yields. This is especially critical for SMEs, where financial constraints are more pronounced, making the skillful handling of working capital a vital strategy for securing a competitive edge (Braithair, Mu, Quay, & Ibrahim, 2021).

The management of working capital, encompassing the handling of current assets and liabilities, is a key metric for assessing a company's short-term financial stability and operational efficiency. For SMEs, with their limited capital and the significant impact of financial decisions, maintaining a balanced approach to managing receivables, inventories, and payables is of utmost importance (Chang, 2018) (Kumar, Sureka, & Colombage, 2020)

Investigating the relationship between working capital management and financial performance indicators, such as Return on Assets (ROA), underscores the essence of proficient financial management in SMEs (Oladimeji & Aladejebi, 2020). The ROA, which evaluates how efficiently a company uses its assets to generate earnings, is a crucial indicator for stakeholders to gauge the efficiency of a firm's management in generating returns from its asset base (Candeias & Dias, 2023).

This study embarks on a systematic investigation to unravel the intricate relationship between working capital management and ROA in the context of SMEs. Through extensive statistical analysis, we aim to grasp the depth and significance of this correlation and its strategic implications for managing SME finances. By addressing the gap in empirical research specifically concerning SMEs in this realm, our study enriches academic discourse, offering both theoretical perspectives and practical advice for entrepreneurs, financial strategists, and policymakers focused on enhancing SME resilience and growth.

Employing a comprehensive dataset and advanced regression techniques, this research seeks to shed light on the influence of working capital management on ROA. This analysis is set to underscore the strategic value of working capital management in fortifying the financial foundations of SMEs and elevating their profitability. Thus, this research not only advances the academic understanding of financial management within the SME context but also provides empirical guidance for strategic decision-making in the business sector.

This introduction serves as the foundation for a detailed examination of the effects of working capital management on a firm's profit generation and operational efficiency, with a specific focus on the SME sector. It delineates the study's background, rationale, objectives, and anticipated contributions to academic knowledge and practical applications.

With a focus on measuring the impact of Net Working Capital (NWC) on net profit and the impact of NWC portion in assets on Return on Assets (ROA), here are the refined research objectives and questions:

### **1.1. Research Objectives**

2. To Measure the Impact of NWC on Net Profit: Quantitatively assess the degree to which Net Working Capital affects net profit within SMEs, determining the strength and significance of this relationship.
3. To Analyze the Proportion of NWC in Total Assets: Examine the size of the working capital portion relative to total assets in SMEs and its correlation with ROA.
4. To Establish Causal Relationships: Identify if there is a causal relationship between NWC and net profit, as well as between the NWC portion in assets and ROA

### **1.2. Research Questions**

2. What is the quantitative impact of NWC on the net profit of SMEs?
3. How does the NWC portion within total assets relate to ROA in SMEs?
- 3 Is there a causal link between changes in NWC and changes in net profit in SMEs?
- 4 Is there a causal link between changes in the NWC portion of total assets and changes in ROA in wine-producer SME companies?

## **2. Literature Review**

Portuguese researchers Teresa Candeyasi and Diana Dias, in their work "Profitability of Wine Companies in the Ancient World: The Impact of Working Capital," studied the relationship between working capital and profitability in the context of the wine industry, using a sample of 324 companies. The results of the study show a positive relationship between the cash conversion cycle and the profitability of wine firms, which managers can use to generate shareholder value by increasing the cash conversion cycle to a reasonable level. The research also revealed the negative impact of the average payment days of accounts payable on the profitability of wine companies. The longer it takes for a company to pay its creditors, the less profitable the company appears to be. As for the days of receivables, the negative impact of the average collection period on the profitability of winemaking firms is also evident here, i.e. the reduction of days that the firm needs to collect receivables has a positive effect on the firm's profitability. The results of the study also show a positive relationship between days of inventory and the profitability of wine companies, implying that companies that maintain sufficiently high levels of inventory have higher profitability. These results indicate that managers can create value for shareholders if they manage their working capital more efficiently (Candeias & Dias, 2023) (Scholarly Community Encyclopedia, 2023).

The opposite is argued by practice-oriented articles, which emphasize that a significant part of working capital is not required. They argue that there is enormous scope for improving the effectiveness of working capital management (WCM) in most companies (Aktas, Croci, & Petmezas, 2015). In Ernst & Young's report "All Tied Up - Working Capital Management Report 2012" which was dedicated to the top 1,000 US companies, we read that the unnecessary part of NWC amounts to between 330 and 590 billion US dollars. This range of cash flow capacity corresponds to 3% to 6% of their total sales, which is quite high (Ernst&Young, 2012).

Ronnie Ek and Stephane Guerin in their book *Is There a Right Level of Working Capital?*, point out that working capital is the lifeblood of a business. However, on the one hand, excess investment in working capital, which could be more effectively used elsewhere, leads to inefficiencies in the core business. On the other hand, on the contrary, too little investment in this area creates the risk that the product will not be available and the company will lose both customers and suppliers (Ek & Guerin, 2011).

Practitioners' views on WCM naturally raise questions: Are companies overinvesting in working capital? To what extent does reducing unnecessary cash invested in working capital lead to an increase in company profits? Should companies reduce excess working capital to finance capital expenditures and acquisitions? (Nihat Aktas, 2014)

Georgian researchers Bezhani Shereshashvili and Levan Sabauri embarked on a comprehensive exploration of how working capital management practices impact the profit margins of Georgian small and medium-sized enterprises (SMEs) within the wine production industry, with a particular focus on JSC "Badagoni" as a central case study. Their investigation underscores the pivotal role that tailored financial strategies and adept working capital management play in enhancing the profitability of firms within the Georgian wine sector. Through an in-depth examination of the financial strategies and outcomes at JSC "Badagoni," Shereshashvili and Sabauri identified specific managerial practices and financial approaches capable of driving financial growth and increasing profit margins. The findings of their study are of significant value, suggesting that Georgian SMEs in the wine production industry can achieve notable financial improvements by adopting sophisticated working capital management strategies. This research makes a critical contribution to both academic and practical knowledge, offering tangible recommendations for SMEs aiming to improve their financial performance and profitability through effective working capital management (Shereshashvil & Sabauri, 2021).

Candeias, E., & Dias, J. (2023) conducted a detailed investigation into the complexities of working capital management's effects on profitability within the wine production sector. Their study illuminates a complex relationship between the length of the cash conversion cycle and a company's profitability, presenting the counterintuitive finding that an extended cash conversion cycle may enhance profitability for wine producers. This revelation highlights the importance of balancing the benefits of extending payment terms and collection periods with the potential downsides, such as increased financing costs or diminished negotiating leverage with suppliers. Interestingly, the research also found a positive

correlation between high inventory levels and increased profitability, likely due to the specific market dynamics of the wine industry, where the aging process can add value to the product, making higher inventory levels a strategic advantage. Candeias and Dias's investigation into the wine production industry offers essential insights into strategic financial management practices that can lead to improved profitability. By emphasizing the necessity of a balanced approach in managing payment terms, collection periods, and inventory levels, their study provides valuable guidance for wine producers seeking to optimize their working capital management strategies. Their findings stress the importance of industry-specific factors in determining the most effective working capital management approach, making a significant contribution to the broader discourse on financial management within niche markets (Candeias & Dias, 2023).

Within the domain of financial management, the intricate link between working capital management and profitability has garnered extensive attention, particularly in the context of the Georgian wine industry. The literature review weaves together significant research contributions, notably those by Shereshashvili and Sabauri (2021) and Candeias and Dias (2023), to provide a deep understanding of the complex dynamics involved.

Shereshashvili and Sabauri's (2021) investigation into the operational practices and financial strategies that markedly increase profit margins for Georgian SMEs in the wine sector, with a spotlight on JSC "Badagoni," emphasizes the criticality of employing advanced working capital management strategies to boost financial outcomes. Their findings advocate for customized financial planning as a practical necessity for profit enhancement, beyond its theoretical appeal.

Conversely, Candeias and Dias (2023) explore the intricate relationship between the cash conversion cycle's duration and profitability, positing the counterintuitive possibility that wine producers might benefit from a protracted cash conversion cycle. Their research challenges preconceived notions by suggesting that, within the wine industry, the peculiar market dynamics transform higher inventory levels from a financial weight into a strategic benefit, courtesy of the aging process that augments the wine's value.

These studies collectively highlight a pivotal theme: effective working capital management demands a sector-specific approach, attentively considering the industry's unique characteristics. For Georgian SMEs in the wine production sector, the insights from these scholarly investigations are invaluable, delineating a strategy for using working capital management as a lever for profitability enhancement. This literature review, through the prism of these studies, accentuates the significance of contextualized financial strategy development. It underscores the importance of judicious management of working capital components—like payment terms, collection periods, and inventory levels—to devise strategies that resonate with the specific economic and market contexts of the wine industry.



In summary, the literature reviewed significantly enriches both academic discourse and the practical realm of financial management. For practitioners, especially within the Georgian wine industry and akin niche sectors, these studies provide empirical substantiation and strategic guidance for fostering more informed and efficacious financial decisions. The collective insights derived from these research efforts underscore the effectiveness of industry-adapted, strategically nuanced working capital management in propelling profitability.

### **3. Research Methodology**

The research methodology for analyzing the financial statements of wine-producing companies, focusing on the 2021-2022 fiscal years, involves a systematic approach to evaluating their profitability through Return on Assets (ROA) and Net Profit margins, along with assessing their financial health via Net Working Capital (NWC). This methodology section outlines the data acquisition, selection criteria, analytical techniques, and statistical tools employed to conduct the study.

Data for this analysis was sourced from <https://reportal.ge> - a comprehensive database that provides access to the financial statements of companies operating within various sectors, including the wine production industry. The financial statements for the years 2021 and 2022 were meticulously collected to ensure a recent and relevant dataset for the companies under review.

The study focused on companies categorized under three distinct tiers within the wine production sector. These categories were determined based on the companies' production capacity, market share, and financial performance. The selection aimed to encompass a broad spectrum of the industry, from small-scale boutique wineries to large, established producers, ensuring a diverse and representative sample. The dataset encompasses information from 62 companies across three distinct categories, representing small and medium enterprise (SME) sectors within the Georgian business environment. It comprises 124 rows of data, detailing financial statements for the years 2021 and 2022.

The primary variables analyzed in this study were:

- Return on Assets (ROA): Calculated as Net Profit divided by Total Assets, this ratio serves as a key indicator of profitability, measuring how efficiently a company utilizes its assets to generate earnings.
- Net Profit Margin: This profitability measure is derived by dividing Net Profit by Total Revenue, reflecting the percentage of revenue that translates into profit after all expenses have been deducted.



- Net Working Capital (NWC): Obtained by subtracting Current Liabilities from Current Assets, NWC provides insight into a company's short-term financial health and its ability to cover its short-term obligations with its short-term assets.

The study employed a two-pronged analytical approach:

1. Descriptive Analysis: This involved summarizing the financial data to describe the current state of the wine-producing companies in terms of profitability and financial health. Measures such as mean, median, and standard deviation were calculated for ROA, Net Profit Margin, and NWC to provide a comprehensive overview of the sector's financial performance.

2. Comparative Analysis: The study compared the financial metrics across the three categories of wine producers to identify trends, disparities, and potential correlations between company size or category and their financial performance indicators.

Statistical analysis was conducted using software tools adept at handling financial data. The specific tools and techniques included:

- Regression Analysis: To explore the relationship between NWC and profitability indicators (ROA and Net Profit Margin), regression models were developed. This analysis helped in understanding the impact of effective working capital management on profitability.

- ANOVA (Analysis of Variance): To determine if there were statistically significant differences in the financial performance metrics across the three categories of wine producers, ANOVA tests were conducted.

Research Limitations: The study acknowledges potential limitations, such as the reliance on publicly available financial statements, which may not capture the full scope of each company's financial activities or the qualitative factors influencing profitability and financial health.

This research methodology provides a structured framework for analyzing the financial performance and health of wine-producing companies over the 2021-2022 period. By focusing on key financial metrics and employing rigorous statistical techniques, the study aims to offer valuable insights into the profitability and operational efficiency of the wine production sector, contributing to the broader understanding of its financial dynamics.

## 4. Results and Discussion

The analysis interprets the regression data to explore the connection between Net Working Capital (NWC) and net profit, summarizing the findings as follows:

Table 1. Connection between Net Working Capital (NWC) and Net Profit

Regression Statistics								
Multiple R	0.38							
R Square	0.15							
Adjusted R Square	0.14							
Standard Error	1,104,856.76							
Observations	124.00							
ANOVA								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	1.00	25,619,744,898,950.60	25,619,744,898,950.60	20.99	0.00			
Residual	122.00	148,926,432,756,662.00	1,220,708,465,218.54					
Total	123.00	174,546,177,655,613.00						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Net Working Capital	0.13	0.03	4.58	0.00	0.07	0.18	0.07	0.18

- **Multiple R (Correlation Coefficient):** A correlation coefficient of 0.38 signals a moderate positive link between NWC and net profit, suggesting a general trend where an increase in NWC is associated with a rise in net profit, though the relationship is not particularly strong.
- **R Square:** With an R Square of 0.15, the model indicates that NWC accounts for about 15% of the variability in net profit. This relatively low percentage points to the existence of additional factors influencing net profit that are not captured by this model.
- **Adjusted R Square:** The slight adjustment to 0.14, considering the model's sole predictor, NWC, suggests a modest fit of the model to the data, correcting for the number of variables and providing a more accurate assessment of model performance.
- **Standard Error:** A substantial standard error of 1,104,856.76 highlights significant variability in the data points around the regression line, indicating considerable prediction error.
- **Observations:** The analysis is grounded on 124 data points, offering a substantial sample size for this regression study.

### ANOVA Insights

- **Degrees of Freedom (df):** The model's df is set at 1 for the independent variable, NWC, with residual df at 122, reflecting the total observations minus the estimated parameters.

- Sum of Squares (SS): This measure splits the total variability in net profit into the portion explained by NWC (regression SS) and the unexplained portion (residual SS), offering insight into the model's explanatory power.
- Mean Square (MS): Calculated by dividing SS by df for both regression and residual components, MS values provide average explained and unexplained variability, respectively.
- F-Statistic: An F value of 20.99 indicates the model's effectiveness in predicting net profit exceeds what might be expected by random chance, suggesting statistical significance.
- Significance F: A p-value of 0.00 for the F-statistic confirms the model's statistical significance at traditional significance levels, underscoring the reliability of the regression findings.

### Coefficient Analysis

- Net Working Capital: A coefficient of 0.13 implies that each unit increase in NWC is expected to result in a 0.13 unit increase in net profit, holding other factors constant.
- Standard Error of the Coefficient: The precision of the NWC coefficient estimate is indicated by a low standard error of 0.03.
- t-Statistic: The significance of the NWC predictor is confirmed by a t-statistic of 4.58, significantly deviating from zero.
- P-value of the Coefficient: A p-value of 0.00 strongly signifies the statistical significance of the NWC's impact on net profit.
- 95% Confidence Interval of the Coefficient: The interval (0.07, 0.18) provides a 95% confidence level for the true impact of NWC on net profit in the broader population.

Thus, the regression analysis reveals a statistically significant yet moderate positive relationship between NWC and net profit. The modest correlation and R Square values suggest that while NWC is a critical factor, it is not the sole influencer of net profit, indicating the need for additional variables to better explain net profit variability. The high standard error points to a significant prediction error, highlighting the variability of net profit predictions based solely on NWC. These results underscore the importance of NWC in financial analysis for SMEs but also call for a more comprehensive model incorporating other relevant predictors to enhance explanatory power and prediction accuracy.

The regression analysis delves into the correlation between the Working Capital portion and the Return on Assets (ROA), outlining its findings as follows:

Table 2. Correlation between the Working Capital portion and the Return on Assets (ROA)

<i>Regression Statistics</i>									
Multiple R	0.32								
R Square	0.10								
Adjusted R Square	0.10								
Standard Error	0.14								
Observations	124.00								
ANOVA									
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>				
Regression	1.00	0.29	0.29	13.92	0.00				
Residual	122.00	2.56	0.02						
Total	123.00	2.85							
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>	
working Caiital Portion	0.15	0.04	3.73	0.00	0.07	0.23	0.07	0.23	

- **Multiple R:** A correlation coefficient of 0.32 points to a mild to moderate positive correlation between the Working Capital portion and ROA, highlighting a direct but not strong relationship.
- **R Square:** With a value of 0.10, the model suggests that the Working Capital portion accounts for 10% of the variability in ROA among the observed data, indicating a limited explanatory power and the presence of other significant factors outside the model.
- **Adjusted R Square:** The adjusted value, also at 0.10, reflects the model's modest ability to explain the variance in ROA, even after adjusting for the number of predictors.
- **Standard Error:** A standard error of 0.14 in the regression indicates the average deviation of the observed values from the model's predicted values, signifying the precision of the regression.
- **Observations:** Utilizing 124 data points ensures a robust sample size for drawing conclusions about SMEs within the study's framework.
- **ANOVA Summary**
- **Degrees of Freedom (df):** The model has 1 degree of freedom for the regression due to a single independent variable, and 122 degrees of freedom for the residuals, calculated from 124 observations minus 2 estimated parameters.
- **The sum of Squares (SS):** The regression SS is relatively low (0.29), suggesting the model's limited capacity to explain ROA variance. Conversely, the residual SS (2.56) is significantly higher, indicating unaccounted variance in ROA by the model.
- **Mean Square (MS):** The division of SS by df for both regression and residuals shows the variance explained by the model per independent variable unit and the variance remaining per observation, respectively.
- **F-statistic:** An F-statistic of 13.92 signals that the model's ability to predict ROA based on the Working Capital portion is unlikely to be by chance, denoting statistical significance.
- **Significance F:** The significance level of 0.00 underscores the statistical reliability of the regression model at conventional thresholds (usually  $p < 0.05$ ).

## Coefficients Summary

- Working Capital Portion: A coefficient of 0.15 signifies that an increase in the Working Capital portion by one unit is associated with a 0.15 unit increase in ROA, ceteris paribus.
- Standard Error of the Coefficient: The relatively low standard error (0.04) indicates a high level of precision in estimating the coefficient.
- t Statistic: The t-statistic of 3.73 provides evidence that the Working Capital portion significantly predicts ROA, differing notably from zero.
- P-value: A p-value of 0.00 strongly supports the statistical significance of the Working Capital portion's impact on ROA.
- 95% Confidence Interval for the Coefficient: The interval bounds (0.07, 0.23) offer 95% confidence that the actual impact of the Working Capital portion on ROA falls within this range in the general population.

Thus, this analysis establishes a statistically significant yet modest positive link between the Working Capital portion and ROA. Despite the statistical significance indicated by the F-statistic and the p-value for the Working Capital portion's coefficient, the R Square's relatively low figure suggests the influence of other pivotal variables on ROA not captured by this model. Consequently, while the Working Capital portion plays a notable role, it does not solely dictate ROA outcomes, pointing to the necessity for a broader analytical scope to encompass additional determinants of ROA.

## 5. Conclusion

Our investigation delved into the relationship between Net Working Capital (NWC) and profitability metrics—namely, net profit and Return on Assets (ROA)—among Georgian SMEs in the wine production sector. The regression analysis unveiled a moderate yet positive correlation between NWC and both net profit and ROA. This revelation points to the significant role that adept working capital management plays in amplifying profitability for these enterprises, highlighting how liquidity and the capability to meet short-term liabilities are crucial for business expansion and financial vitality.

The insights gleaned from this study emphasize the criticality of strategic financial stewardship for SMEs within the wine production domain. Through the meticulous optimization of working capital, these entities can not only bolster their profitability but also their operational efficacy and market competitiveness. This research offers concrete empirical support for the necessity of SMEs to institute robust financial planning and management protocols, with an emphasis on striking a harmonious balance between liquidity and profit generation to nurture enduring growth.

This work enriches the dialogue on financial management across SMEs, especially within emergent markets such as Georgia. It augments the current corpus of literature by presenting empirical data from the wine production industry, a pivotal segment of the Georgian economy, and addresses a previously

underexplored facet of how working capital management influences profitability in this particular milieu. The insights furnished here serve as a springboard for subsequent scholarly explorations.

This study, while illuminating the link between NWC and profitability, paves the way for further scholarly inquiry. Prospective research could examine additional factors that may impact this relationship, including the nuances of market dynamics, regulatory frameworks, or the effects of external financial inputs. Such investigations would afford a more rounded comprehension of the fiscal management predicaments and prospects confronting SMEs in Georgia and analogous settings.

## Bibliography

1. Aktas, N., Croci, E., & Petmezas, D. (2015). Is working capital management value-enhancing? Evidence from firm performance and investments. *Journal of Corporate Finance*, 30, 98-113. doi:<https://doi.org/10.1016/j.jcorpfin.2014.12.008>
2. Braimah, A., Mu, Y., Quaye, I., & Ibrahim, A. A. (2021). Working Capital Management and SMEs Profitability in Emerging Economies: The Ghanaian Case. *Sage Open*, 11(1). doi:<https://doi.org/10.1177/2158244021989317>
3. Candeias, T., & Dias, D. (2023). Wine Companies' Profitability in the Old World: Working Capital's Impact. *MDPI*. doi: <https://doi.org/10.3390/admsci13080171>
4. Chang, C.-C. (2018). Cash conversion cycle and corporate performance: Global evidence. *International Review of Economics & Finance*, 56, 568-581. doi:<https://doi.org/10.1016/j.iref.2017.12.014>
5. Ek, R., & Guerin, S. (2011). Is there a right level of working capital? *Journal of Corporate Treasury Management*, 4(2), 137-149. Retrieved from <https://rb.gy/dcfrd6>
6. Ernst&Young. (2012). *All tied up: working capital management report*. Retrieved from [www.ey.com](http://www.ey.com)
7. Kumar, S., Sureka, R., & Colombage, S. (2020). Capital structure of SMEs: a systematic literature review and bibliometric analysis. *Management Review Quarterly*, 70. doi:<https://doi.org/10.1007/s11301-019-00175-4>
8. Nihat Aktas, E. C. (2014). Is working capital management value-enhancing? Evidence from firm performance and investments. *Journal of Corporate Finance*, 30, 98-113. doi:<https://doi.org/10.1016/j.jcorpfin.2014.12.008>
9. Oladimeji, J., & Aladejebi, O. (2020). The Impact of Working Capital Management on Profitability: Evidence from Selected Small Businesses in Nigeria. *Journal of Small Business and Entrepreneurship Development*, 8(1), <https://doi.org/10.15640/jsbed.v8n1a3>. doi:10.15640/jsbed.v8n1a3
10. Scholarly Community Encyclopedia. (2023). *Working Capital and Wine Industry*. Retrieved November 16, 2023, from <https://encyclopedia.pub/entry/47662>
11. Shereshashvil, B., & Sabauri, L. (2021). Key Aspects of Analysis of Profit and Profitability Georgian Winemaking on the Example of JSC "Badagoni". *Economics*, 104(1-2). doi:<https://dx.doi.org/10.36962/ECS104/1-2/145>