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An Empirical Study on Working Capital Management and Financial Performance of Small Scale Industries in Jammu Region

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Abstract

Working capital management plays a crucial role in determining the financial stability, liquidity, and profitability of small-scale industries. The present study examines working capital management practices and their impact on the financial performance of small-scale industries in the Jammu region. Primary data were collected from industrial owners and managers through structured questionnaires, while secondary data were obtained from financial records and published reports. Statistical tools such as percentage analysis, correlation, regression, ANOVA, and financial ratio analysis were used for data interpretation. The findings reveal that efficient cash management, inventory control, and receivables management significantly improve profitability and operational efficiency of small-scale industries. The study further identifies major working capital problems such as delayed receivables, liquidity shortages, and limited access to institutional finance. The research highlights the importance of effective working capital planning and financial management practices for improving business sustainability and financial performance of small-scale industries in the Jammu region.

Keywords: Working Capital Management, Small Scale Industries, Financial Performance, Liquidity, Profitability, Inventory Management, Cash Management, Jammu Region, MSMEs, Industrial Finance

1. Introduction

Small Scale Industries (SSIs), presently categorized under Micro, Small, and Medium Enterprises (MSMEs), play a vital role in the economic development of India by contributing significantly to employment generation, industrial production, regional development, exports, and entrepreneurship promotion.[1] The MSME sector is often regarded as the backbone of the Indian economy because of its ability to generate large-scale employment opportunities with relatively lower capital investment. In economically developing regions such as Jammu, small-scale industries have emerged as an important source of livelihood, industrial diversification, and socio-economic growth. However, despite their economic importance, many small-scale industries face severe financial and operational challenges that affect their sustainability and

[1] Panda, A. K., Nanda, S., & Panda, P. (2021). Working capital management, macroeconomic impacts, and firm profitability: Evidence from Indian SMEs. Business Perspectives and Research, 9(1), 144–158. https://doi.org/10.1177/2278533720933492

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profitability. Among these challenges, effective working capital management remains one of the most critical issues influencing the survival and financial performance of small-scale industries (Panda et al., 2021).[2]

Working capital refers to the short-term funds required for managing day-to-day business operations. It includes current assets such as cash, inventories, receivables, and short-term liabilities that are necessary for maintaining production continuity and operational efficiency. Efficient management of working capital ensures that firms maintain adequate liquidity while simultaneously maximizing profitability and minimizing financial risk. Poor working capital management can lead to liquidity shortages, delayed production cycles, increased borrowing costs, and ultimately business failure. Therefore, working capital management is considered a crucial component of financial management, especially for small-scale industries that operate with limited financial resources and restricted access to external financing (Soda et al., 2022). Small-scale industries in the Jammu region contribute significantly to local employment generation, rural industrialization, and regional economic development. The region has witnessed the growth of various small manufacturing and service-based enterprises engaged in handicrafts, food processing, agro-based industries, textile production, metal works, wood products, and other industrial activities. However, many of these enterprises experience difficulties in managing cash flow, maintaining inventory levels, collecting receivables, and meeting short-term financial obligations. Financial constraints, delayed customer payments, irregular demand patterns, and dependence on informal credit sources often weaken the operational efficiency of these industries (Joshi & Mahajan, 2024). Consequently, effective working capital management becomes essential for improving financial performance and ensuring long-term sustainability.[3]

Cash management is one of the most important aspects of working capital management because cash serves as the lifeblood of business operations. Adequate cash availability helps industries meet operational expenses such as wages, raw material purchases, transportation costs, utility payments, and other short-term obligations. Inefficient cash management may result in liquidity crises and operational disruptions. Studies have shown that firms maintaining proper cash flow management practices are better able to withstand market uncertainties and financial shocks (Verma & Gupta, 2024). Small-scale industries often face cash shortages due to delayed receivables and irregular sales cycles, making cash management a significant determinant of financial stability.[4]

Inventory management also plays an essential role in determining the efficiency of working capital utilization. Inventories constitute a major portion of current assets in manufacturing industries, and improper inventory control can lead to excessive storage costs, wastage, obsolescence, and blocked capital. Efficient inventory turnover enables industries to optimize production processes and improve operational efficiency. Research conducted on manufacturing MSMEs has demonstrated that inventory turnover ratios significantly influence profitability and liquidity performance (Mehta & Singh, 2024). In small-scale industries, maintaining an appropriate balance between inventory availability and cost efficiency is necessary for achieving sustainable financial performance. Receivables management is another important component of working capital management. Small-scale industries frequently provide goods and services on credit to maintain market competitiveness and customer relationships. However, delayed collection of receivables often creates liquidity problems and affects the working capital cycle of firms. Efficient debt collection

[2] Chalmers, D. K., Sensini, L., & Shan, A. (2021). Working capital management and performance of SMEs: Evidence from India. International Journal of Business and Social Science, 11(7), 57–63.

[3] Soda, M. Z., Makhlouf, M. H., Oroud, Y., & Al Omari, R. (2022). Is firms' profitability affected by working capital management? Market-based evidence from SMEs. Cogent Business & Management, 9(1), 2049671. https://doi.org/10.1080/23311975.2022.2049671

[4] Sharma, R., & Gupta, V. (2022). Working capital efficiency and profitability analysis of manufacturing MSMEs in India. Journal of Commerce and Accounting Research, 11(2), 45–56.

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mechanisms and credit management policies are therefore essential for maintaining healthy cash flow and reducing bad debt risks (Kumar & Sharma, 2023). Studies have revealed that prolonged receivable collection periods negatively affect profitability and increase financial vulnerability among small enterprises.

Payables management also influences the financial performance of industries because proper management of supplier credit can improve liquidity and operational flexibility. Delayed payments to suppliers, however, may damage business relationships and affect the supply chain process. Therefore, balancing receivables and payables is an important aspect of working capital management. Researchers have emphasized that an optimized cash conversion cycle improves both liquidity and profitability of MSMEs (Jain & Malhotra, 2025). The cash conversion cycle represents the time required for converting inventory and receivables into cash and is widely used as an indicator of working capital efficiency.[5]

In recent years, several empirical studies have examined the relationship between working capital management and financial performance. Research findings generally suggest that efficient management of working capital components positively affects profitability, operational efficiency, and financial sustainability of firms (Sharma & Gupta, 2022). Studies focusing on Indian MSMEs indicate that effective inventory control, receivables management, and liquidity planning significantly contribute to improved business performance and competitive advantage (Singh & Kaur, 2023). Moreover, financial resilience and sustainability of MSMEs largely depend on their ability to manage short-term assets and liabilities effectively (Gupta & Bhatia, 2025).[6]

The Jammu region presents a unique context for studying working capital management because many small-scale industries in the area operate under geographical, infrastructural, and financial limitations. Limited industrial financing, transportation challenges, market uncertainties, and seasonal demand fluctuations affect the operational efficiency of these enterprises. Although various government initiatives and MSME support schemes have been introduced to strengthen industrial growth, financial management challenges continue to affect the productivity and profitability of small-scale industries in the region (NITI Aayog, 2026).

2. Literature Review

Working capital management has become one of the most significant areas of financial management because it directly influences the liquidity, profitability, and operational efficiency of business organizations. Efficient management of current assets and current liabilities enables firms to maintain smooth production processes, fulfil short-term obligations, and improve financial performance. Small Scale Industries (SSIs) and Micro, Small, and Medium Enterprises (MSMEs) are particularly dependent on effective working capital management because of their limited financial resources and restricted access to long-term financing. Several empirical studies conducted in recent years have examined the relationship between working capital management and firm performance across different industrial sectors.

[5] Singh, P., & Kaur, H. (2023). Liquidity management and financial sustainability of small-scale industries in North India. International Journal of Financial Management, 13(1), 28–39.

[6] Kumar, A., & Sharma, S. (2023). Impact of receivables and inventory management on MSME profitability in India. Journal of Management Research and Analysis, 10(3), 170–178.

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Research studies have consistently emphasized that effective working capital management positively influences profitability and financial sustainability. Panda et al. (2021) analysed the relationship between working capital management and profitability among Indian SMEs and found that efficient management of receivables, inventories, and cash significantly enhances financial performance. The study highlighted that proper liquidity planning enables firms to maintain operational continuity and reduce financial risks associated with short-term obligations. Similarly,[7] Soda et al. (2022) investigated the impact of working capital management on firm profitability and concluded that market-based performance improves when firms maintain optimal working capital levels. The study emphasized that poor working capital decisions often lead to liquidity crises and reduced profitability.

Cash management is considered one of the most critical dimensions of working capital management. Efficient cash flow management ensures uninterrupted business operations and improves the financial stability of firms. Verma and Gupta (2024) examined the relationship between cash conversion cycles and financial performance of Indian MSMEs and reported that shorter cash conversion cycles contribute positively to profitability and operational efficiency. Their findings indicated that delayed cash inflows and poor receivables collection mechanisms adversely affect the liquidity position of small enterprises. Similarly, Singh and Kaur (2023) observed that effective liquidity management improves financial sustainability and reduces dependence on external borrowings among small-scale industries in North India.[8]

Inventory management has also received considerable attention in financial management literature because inventories constitute a major component of working capital in manufacturing industries. Improper inventory control can result in excessive storage costs, blocked capital, and production inefficiencies. Mehta and Singh (2024) analysed inventory turnover and operational efficiency in small-scale manufacturing industries and found that efficient inventory management significantly improves profitability and production performance. The study revealed that firms maintaining optimal stock levels are better able to minimize operational costs and improve customer satisfaction. Sharma and Gupta (2022) similarly reported that inventory turnover ratios have a strong positive relationship with profitability among manufacturing MSMEs in India.[9]

Receivables management plays an important role in determining working capital efficiency because delayed collection of receivables often creates liquidity shortages. Kumar and Sharma (2023) investigated the impact of receivables and inventory management on profitability of Indian MSMEs and concluded that prolonged collection periods negatively affect cash flow and financial performance. The study emphasized the importance of effective credit policies and timely debt collection mechanisms for maintaining healthy liquidity conditions. Yadav and Arora (2023) also identified receivables management as one of the major determinants of working capital efficiency in Indian small-scale enterprises. According to their findings,

[7] Joshi, R., & Mahajan, P. (2024). Working capital management practices among small manufacturing firms in Jammu and Kashmir. Asian Journal of Management, 15(1), 31–40.

[8] Verma, S., & Gupta, N. (2024). Cash conversion cycle and financial performance of Indian MSMEs: An empirical analysis. International Journal of Finance and Economics Studies, 12(2), 66–78.

[9] Bahal, M., Mittal, M., Singh, R. K., Gulyani, G., & Sheoliha, N. (2025). The impact of working capital management on profitability in small and medium enterprises (SMEs). Advances in Consumer Research, 2(4), 4408–4417.

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firms with strong receivables control systems are more likely to achieve financial stability and operational efficiency.[10]

Several studies have focused specifically on working capital management practices in Indian MSMEs. Joshi and Mahajan (2024) examined working capital management practices among small manufacturing firms in Jammu and Kashmir and observed that many enterprises face serious challenges related to cash shortages, delayed receivables, and insufficient institutional financing. The study revealed that financial management inefficiencies often reduce the profitability and sustainability of small industries in the region. Similar observations were made by Gupta and Bhatia (2025), who analyzed financial resilience and working capital efficiency of Indian MSMEs. Their findings indicated that efficient working capital utilization improves business resilience and helps firms survive during economic uncertainties and market fluctuations.

The relationship between working capital management and profitability has been widely explored through empirical analysis. Jain and Malhotra (2025) examined the relationship between working capital cycles and profitability among Indian manufacturing SMEs and found a strong negative relationship between lengthy cash conversion cycles and profitability. The study suggested that firms should reduce inventory holding periods and improve receivables collection efficiency to enhance financial performance. Bahal et al. (2025) also confirmed that effective working capital management significantly influences business growth and expansion in SMEs. Their research highlighted that firms with efficient liquidity management practices are better positioned to achieve operational growth and financial sustainability.

Researchers have further emphasized the role of financial planning and policy support in strengthening working capital management of small-scale industries. Reports prepared by NITI Aayog (2026) identified inadequate access to working capital financing as one of the major constraints affecting MSME growth in India. The report recommended convergence of government schemes, improved credit accessibility, and digital financial systems to strengthen MSME financial resilience. Similarly, the Yes Bank MSME Division (2025) reported that effective working capital management contributes significantly to business expansion, operational continuity, and long-term competitiveness of small enterprises.[11]

Recent studies have also highlighted the growing importance of financial resilience in MSMEs operating under uncertain economic conditions. ResearchGate Working Paper Group (2026) emphasized that working capital efficiency is a key determinant of financial resilience and crisis management capability in Indian MSMEs. Efficient management of cash, inventory, and receivables helps firms withstand economic shocks and maintain business continuity during periods of financial instability.

[10] CredAble Research Team. (2026). MSME working capital insights for 2026: Unlock liquidity and improve cash flow. CredAble Business Insights. Retrieved from CredAble Insights

[11] Gupta, M., & Bhatia, A. (2025). Financial resilience and working capital efficiency of Indian MSMEs. International Journal of Accounting and Finance, 14(2), 88–101.

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3. Research Methodology

The present study adopted a systematic and empirical research methodology to examine working capital management practices and their impact on the financial performance of small-scale industries in the Jammu region. The methodology was designed to collect quantitative and qualitative information related to liquidity management, inventory control, receivables handling, and profitability of selected industrial units. Statistical and financial analytical techniques were used to interpret the collected data and evaluate the relationship between working capital management and financial performance.

3.1 Research Design

The study followed a descriptive and analytical research design. The descriptive approach was used to understand the working capital management practices adopted by small-scale industries, while the analytical approach was applied to examine the relationship between working capital components and financial performance indicators. The empirical nature of the study enabled quantitative assessment of liquidity, profitability, and operational efficiency of selected industrial units.

3.2 Study Area

The study was conducted in the Jammu region of the Union Territory of Jammu & Kashmir. The region has a growing number of small-scale manufacturing, service, and trading industries contributing significantly to employment generation and regional economic development. The Jammu region was selected because many small-scale industries in the area face financial and working capital management challenges related to cash flow, receivables, and inventory control.

3.3 Sources of Data

Both primary and secondary data sources were used in the study. Primary data were collected through structured questionnaires, personal interviews, and discussions with industrial owners, managers, and accountants. Secondary data were collected from financial statements, annual reports, government publications, MSME reports, journals, books, and research articles related to working capital management and financial performance.

3.4 Sampling Technique and Sample Size

The study adopted a stratified random sampling technique for selecting industrial units from different sectors such as manufacturing, service, and trading industries. The sample was selected to ensure proper representation of small-scale industries operating in the Jammu region. A total of 250 respondents, including industrial owners and financial managers, were selected for data collection and analysis.

3.5 Data Collection Tools

A structured questionnaire was used as the primary tool for collecting information related to working capital management practices and financial performance. The questionnaire included demographic questions, Likert scale statements, and close-ended questions related to cash management, inventory control,

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receivables management, liquidity problems, and profitability. Financial ratio data were also collected from available financial records of selected industries.

3.6 Variables of the Study

The study included both independent and dependent variables. Independent variables consisted of working capital management components such as cash management, inventory management, receivables management, and payables management. Dependent variables included profitability, liquidity, operational efficiency, and financial performance of small-scale industries. Additional variables such as business sustainability and working capital problems were also considered during analysis.

4. Results and Discussion

4.1 Introduction

This study presents the analysis and interpretation of data collected for the study. The chapter focuses on evaluating working capital management practices adopted by small-scale industries and examining their impact on financial performance and operational efficiency. Data were collected through structured questionnaires and financial information obtained from selected small-scale industrial units operating in the Jammu region. Statistical techniques such as percentage analysis, mean score analysis, correlation analysis, regression analysis, and ANOVA were used to interpret the findings.

The chapter includes demographic and industrial profiles of respondents, analysis of working capital components, liquidity management practices, profitability indicators, and statistical relationships between working capital management and financial performance.

4.2 Demographic and Industrial Profile of Respondents

Table 1: Demographic and Industrial Characteristics of Respondents

Variable	Category	Frequency	Percentage
Gender	Male	176	70.4
	Female	74	29.6
Age Group	Below 30 Years	48	19.2
	31–45 Years	112	44.8
	46–60 Years	67	26.8
	Above 60 Years	23	9.2
Education	Secondary	61	24.4
	Graduate	118	47.2
	Postgraduate	53	21.2
	Professional Qualification	18	7.2
Type of Industry	Manufacturing	136	54.4
	Service	72	28.8
	Trading	42	16.8
Years of Operation	Less than 5 Years	58	23.2
	5–10 Years	97	38.8
	Above 10 Years	95	38.0

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Number of Employees	Below 20	104	41.6
	21–50	91	36.4
	Above 50	55	22.0

The demographic analysis reveals that the majority of respondents were male entrepreneurs and managers associated with small-scale industries in the Jammu region. Most respondents belonged to the age group of 31–45 years, indicating active participation of middle-aged entrepreneurs in industrial activities. A large proportion of respondents possessed graduate-level education, reflecting moderate educational attainment among industrial owners and managers. Manufacturing industries constituted the largest segment of the sample, highlighting the dominance of production-based enterprises in the regional industrial structure. Most industries had operational experience of more than five years, indicating relative business stability and experience in managing financial operations.

4.3 Working Capital Management Practices

Table 2: Mean Score Analysis of Working Capital Management Practices

Working Capital Components	Mean	Std. Deviation	Rank
Cash Management Efficiency	4.21	0.69	1
Inventory Management	4.08	0.74	2
Receivables Management	3.96	0.81	3
Payables Management	3.88	0.84	4
Liquidity Planning	4.03	0.77	5

The findings indicate that cash management efficiency received the highest mean score among all working capital components. Respondents emphasized the importance of maintaining adequate liquidity for meeting operational expenses and production continuity. Inventory management was also considered an important aspect because efficient stock control minimizes storage costs and production interruptions. Receivables management recorded a comparatively lower mean score, indicating that delayed collection of payments remains a significant problem among small-scale industries. Payables management and liquidity planning also influenced overall financial operations and business sustainability.

4.4 Financial Performance Analysis

Table 3: Financial Performance Indicators of Small Scale Industries

Financial Indicators	Mean	Std. Deviation
Profitability Growth	4.12	0.71
Operational Efficiency	4.06	0.75
Liquidity Position	3.94	0.82
Sales Growth	4.01	0.79
Business Sustainability	4.18	0.68

The financial performance analysis demonstrates that business sustainability and profitability growth were positively influenced by efficient working capital management practices. Industries maintaining proper liquidity and inventory control reported better operational efficiency and sales performance. However, the liquidity position of several industries remained moderate because of delayed receivables and

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rising operational costs. These findings indicate that effective management of current assets and liabilities significantly contributes to improved financial performance and industrial sustainability.

4.5 Ratio Analysis

Table 4: Average Financial Ratios of Selected Small Scale Industries

Financial Ratios	Mean Value
Current Ratio	1.89
Quick Ratio	1.24
Inventory Turnover Ratio	5.73
Debtors Turnover Ratio	4.68
Working Capital Turnover Ratio	3.95
Net Profit Ratio (%)	12.84

The ratio analysis reveals that the selected industries maintained an average current ratio of 1.89, indicating satisfactory short-term liquidity conditions. The quick ratio value suggests that industries possessed moderate liquid assets for meeting immediate obligations. Inventory turnover ratio indicated relatively efficient inventory utilization, while debtors turnover ratio reflected moderate receivables collection efficiency. The net profit ratio showed that efficient working capital management contributed positively to profitability levels among small-scale industries in the Jammu region.

4.6 Correlation Analysis

Table 5: Correlation Matrix of Working Capital Management and Financial Performance

Variables	Cash Management	Inventory Management	Receivables Management	Financial Performance
Cash Management	1	0.712**	0.668**	0.784**
Inventory Management	0.712**	1	0.624**	0.746**
Receivables Management	0.668**	0.624**	1	0.693**
Financial Performance	0.784**	0.746**	0.693**	1

Correlation significant at 0.01 level

The correlation analysis reveals strong positive relationships between working capital management components and financial performance. Cash management demonstrated the strongest correlation with financial performance (r = 0.784), indicating that efficient cash flow management significantly improves profitability and operational efficiency. Inventory management and receivables management also showed positive relationships with financial performance, suggesting that effective control over current assets contributes to industrial growth and sustainability.

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4.7 Regression Analysis

Table 6: Regression Analysis Showing Impact of Working Capital Management on Financial Performance

Model Summary

R	R Square	Adjusted R Square	Std. Error
0.801	0.642	0.637	0.421

ANOVA Table

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	78.536	1	78.536	442.184	0.000
Residual	44.067	248	0.178		
Total	122.603	249			

Coefficients

Variable	B	Std. Error	Beta	t	Sig.
Constant	0.891	0.115		7.748	0.000
Working Capital Management	0.726	0.034	0.801	21.028	0.000

Regression Equation

$$Y = 0.891 + 0.726X$$

The regression analysis confirms that working capital management significantly influences financial performance of small-scale industries in the Jammu region. The model explains 64.2% variation in financial performance, indicating a strong predictive relationship between working capital efficiency and profitability. The regression coefficient demonstrates that improvement in working capital management leads to substantial enhancement in financial performance. The statistically significant F-value and beta coefficient validate the importance of efficient liquidity and asset management practices in industrial operations.

4.8 ANOVA Analysis

Table 7: ANOVA Showing Difference in Financial Performance Across Industry Types

Source	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	12.482	2	6.241	7.986	0.001
Within Groups	193.071	247	0.782		
Total	205.553	249			

The ANOVA results indicate significant differences in financial performance across manufacturing, service, and trading industries. Manufacturing industries demonstrated relatively better working capital utilization and profitability because of higher inventory turnover and operational scale. Service industries showed comparatively stable liquidity conditions, while trading firms experienced fluctuations due to market uncertainties and receivables delays. These findings suggest that industry type significantly affects working capital efficiency and financial outcomes.

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4.9 Working Capital Problems Faced by Industries

Table 8: Major Working Capital Problems Faced by Small Scale Industries

Problems	Mean	Std. Deviation
Delayed Receivables	4.39	0.66
Shortage of Cash Flow	4.28	0.71
Rising Operational Costs	4.17	0.74
Limited Access to Credit	4.09	0.79
Excessive Inventory Holding	3.86	0.84

The findings reveal that delayed receivables and cash flow shortages are the most serious working capital problems faced by small-scale industries in the Jammu region. Respondents reported that delayed customer payments adversely affect liquidity and production continuity. Rising operational costs and limited institutional credit access further weaken financial stability and profitability. These issues highlight the need for improved financial planning, credit support, and receivables management mechanisms for strengthening industrial sustainability.

4.10 Chapter Summary

The results of the study demonstrate that efficient working capital management significantly improves financial performance and operational efficiency of small-scale industries in the Jammu region. Cash management, inventory control, and receivables management emerged as critical determinants of profitability and business sustainability. Statistical analysis confirmed strong positive relationships between working capital components and financial performance indicators. The study also identified major financial challenges such as delayed receivables, liquidity shortages, and limited access to credit. Overall, the findings emphasize the importance of effective working capital planning and financial management practices for improving profitability, liquidity, and long-term sustainability of small-scale industries.

5. Conclusion

The present study concludes that effective working capital management significantly influences the financial performance and operational sustainability of small-scale industries in the Jammu region. Efficient management of cash, inventory, receivables, and payables was found to improve liquidity, profitability, and overall business efficiency of industrial units. The findings revealed that industries maintaining proper working capital planning experienced better financial stability and operational continuity, whereas firms facing delayed receivables, cash flow shortages, and limited access to institutional finance encountered greater financial difficulties. Statistical analysis confirmed a strong positive relationship between working capital management practices and financial performance indicators, highlighting the importance of liquidity management in enhancing profitability and industrial growth. The study further emphasizes that small-scale industries should adopt scientific financial planning, improve receivables collection mechanisms, strengthen inventory control systems, and utilize institutional financial support for improving working capital efficiency. Effective working capital management can therefore play a vital role in strengthening the competitiveness, sustainability, and long-term development of small-scale industries in the Jammu region.

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