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Unveiling the Covid-19 Financial Crisis: Assessing its Dual Impact on Working Capital Management and Cash Flow/Liquidity in UK MSMEs

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Abstract

This paper assesses the dual impacts of the COVID-19 financial crisis on working capital management and Cash flow/Liquidity from the perceptions of the owners, and managers of UK Micro,Small and Medium Sized Enterprises(MSMEs).The paper adopts quantitative approach to analyse the data collected through a questionnaire survey from a sample of 150 NEX Exchange, FSB and AIM listed MSME data bases. The paper applies SEM methodology to test on responses from 62 Owners and managers. The results show that the COVID-19 financial crisis has significant adverse impacts on both the working capital management policies and cash flow/liquidity positions of UK MSMEs, through both observed and latent variables. The causes of these adverse impacts are reduced customer demand (market channel) and the anxiety of a positive economic outlook(emotional channel).

Keywords: COVID-19 Financial Crisis, WCM and Cash Flow/Liquidity

Introduction

Firstly, WCM is especially significant to MSMEs because of their small profit margins and limited access to credit from external sources such as banks and other lenders. The dependency of SMEs on short-term assets makes effective management of working capital critical for their survival and growth (Grablowsky, 1984; Pass and Pike, 1987; Padachi, 2006). The term Working Capital is widely known to most financial professionals (Afrifa, 2013). Its effective management can help optimize business cash flow/ liquidity and develop its value-creating potential (Kumar et al.,2024). However,to understand the importance of working capital management, a definition of the concept is essential. One of those definitions is by Filbeck and Krueger (2005),they defined "working capital as the difference between resources in cash or readily convertible into cash (current assets) and organizational obligations for which cash will soon be needed (current Liabilities).

As the name suggests, it is the capital needed for the business to operate in terms of meeting its short-term operational commitments (Ovedje,2024).Working capital is crucial for MSMEs, hence it directly affects their profitability and cash flow/ liquidity (Ombui et al.,2024).

MSMEs, needs to pay specific attention to the control and monitoring of working capital due to their higher quantity of current assets, less liquidity, volatile cash flows and dependence on short-term debt comparative to big businesses (Della et al.,2022). However, evidence indicates that few MSMEs adopt formal WCM procedures, but instead rely on subjective WCM choices (Chambers et al.,2020).

Businesses with high liquidity of working capital may have low risk and low profitability (Raheman and Nasr., 2007).Therefore, businesses can enhance their liquidity positions by increasing the amount of working capital (Fungai J., 2024). Siddiqui et al. (2020) further stress that sufficient liquidity, resulting from optimal WCM, allows businesses to take advantage of investment opportunities and navigate through volatile market conditions, such as the Covid-19 financial crisis. Aziz et al. (2020) also support these results and show a positive relationship between WCM and liquidity ratios. Therefore, by maintaining optimal working capital levels, Businesses can improve their liquidity positions, mitigate financial risks, and improve overall financial performance (Sogomi et al., 2024).

The way working capital is managed can have a considerable impact on the cash holding levels of businesses. Thus, undertaking such decisions involves the thoughtful preparation and control of the current assets and liabilities in a way that eliminates or reduces the risk of the business not able to meet its immediate commitments(Balios et al.,2024). In spite of the importance of efficient management of working capital to SMEs, Howorth and Westhead (2003) claim that knowledge and understanding of WCM practices of SMEs are insufficient.

Therefore, in assessing the dual impacts of COVID-19 pandemic and the resultant financial challenges on the WCM policies and cash flow/liquidity of UK SMEs, this paper looks at how in an instant, the lives of people and businesses across the world have changed due to the pandemic. Market channels, commercial activities, and cash flow and liquidity of SMEs in the UK have substantially reduced. Therefore, the issue of how UK SMEs have been impacted by this financial crisis and the challenges connected to the pandemic is an important topic worth researching. This is because MSMEs perform a key role in economies across the globe as major creators of employment and income (Lukacs 2005; Abor and Quartey 2010).They promote innovation and growth including in the UK and across the world, hence the motivation for this study.

In the UK, SMEs provide employment for about 16.3 million people and account for 50% of GDP, contributing approximately £2 trillion per annum to the UK economy (Lerong, 2017).MSMEs are significant contributors to the economies of most countries, as they represent around 90% of all businesses globally (Aghelie, 2017; Asgary et al., 2020). MSMEs create competition and promote more innovation across multiple industries. They provide many economies with a healthy source of new talents and ideas, as well as making the marketplace more vibrant. The successes of start-ups such as Uber, Deliveroo and Airbnb have all created further competition through creativity in their individual industries.

Therefore, the goal of this paper is to examine the dual impact of COVID-19/financial crisis on the WCM and cash flow/liquidity of UK SMEs. The study uses data collected through a questionnaire survey from a sample of 150 listed NEX Exchange, FSB and AIM listed SMEs that meet the definition of the UK Companies Act 2006, sections 382 and 465, as well as the

EU's definition of SMEs.The word SMEs is used interchangeably with MSMEs in this study, as illustrated in Appendix 1 to address the subsequent research questions:
Q1.What is the impact of COVID-19 financial crisis on the WCM of UK MSMEs?
Q2. What is the impact of the COVID-19 financial crisis on the cash flow/liquidity of UK MSMEs?
Q3. What is the impact of COVID-19 financial crisis on the WCM and Cash flow/liquidity due to the feelings of MSMEs about the overall economic outlook of the UK?

To further underline the importance and need for this paper, the Parliamentary Office of Science and Technology (POST) in the UK has published 20 COVID-19 related areas of research interest (ARIs) for the UK Parliament, using the input of over 1,000 experts. The report was presented to the UK Parliament's Select Committee, and the present study was one of the interested areas identified. That is how the COVID-19 pandemic impacts the sustainability and functioning of UK companies, and the sectors and size of businesses that have been adversely impacted, and type of help that can be offered to them in short and long term. Thus, this paper makes new contributions to literature, and additionally provides original evidence of the impacts of the COVID-19 financial crisis on both the Working capital management policies and cash flow/liquidity of UK SMEs, for the benefit of both policy makers and SMEs.

The findings can also serve as a lesson from which SME businesses can learn in terms of the importance of competent management of working capital in any period, but more so during a financial crisis. The evidence and information can further assist policymakers and SMEs to mitigate similar crises in the future. Hence there was no existing literature on the impacts of the COVID-19 financial crisis on the WCM and cash flow/liquidity of SMEs in the UK, and previous studies that have investigated WCM during and post financial crisis (e.g., Simon et al., 2017; Pawel et al., 2017; Baveld, 2012), failed to investigate the impact of the COVID-19 financial crisis on the WCM of UK SMEs, therefore this paper attempts to fill that gap. The remainder of this paper is arranged as follows; the next section is the review of literature, then the data collection and study methodology. The findings and discussion of the research are then presented. The summary and conclusion are provided at the end.

Literature Review and Hypothesis Development

It is no secret that working capital management policies do affect profitability and cash flow/liquidity, but to what degree is still a debatable issue (Hassan et al.,2024). Effective management of working is essential and vital to any business. Many small SMEs have failed because of ineffective management of WC (Ovedje,2024).Poor working capital management has been indicated as the major cause of many SME business failures (Kosgey & Njiru, 2016).However, the Catch-22 in working capital management is to achieve desired trade-off between liquidity and profitability (Raheman and Nasr, 2007). Referring to the theory of risk and return, investment with higher risks will usually result to more return, than those with lesser risks. As such, there have been debates as to the risk and return of the different working capital management strategies at different periods.

The core objective of many organizations is to maximize profit/wealth, which includes enhancing profitability while balancing liquidity needs (Werner & Stoner, 2018). Effective management of working capital plays a crucial role in achieving this goal, by ensuring the right balance between current assets and liabilities. Oundo (2017) highlights the importance of

WCM in examining business performance, as an imbalance between current assets and liabilities can greatly affect profitability. This underlines the critical role of effective WCM in mitigating Covid-19 financial constraints faced by SME businesses in the UK.

The more aggressive method, when the working capital is decreased, is linked with higher risks and returns. However, during financial crisis, the risk of default and insolvencies increase when a business adopts a more aggressive WCM. For instance, a sudden loss of revenue during the pandemic due to lockdown can leave the business unable to make interest payments. The conservative strategy, with high cash reserves and more stocks, is connected with lesser risk and return (Akbar et al.,2022).An aggressive working capital management strategy is one in which businesses try to operate with a minimal investment in current assets combined with an increased use of short-term credit. Businesses operating in a volatile environment, such as during the COVID-19 financial crisis may adopt conservative working capital management procedures to safeguard against the risk of defaults.

In many small businesses, the total amount invested in current assets tends to be higher in relation to the capital employed. It is therefore essential that these resources are used effectively so that there is no surplus of working capital, and limiting the presence of idle assets without a return, can lead to a low rate of return on capital employed. This may adversely impact the profitability of an enterprise. It means that idle working capital can impose opportunity costs on a business, leading to a decline of its margin of profit and the value. Therefore, both an inadequate and unnecessary quantity of working capital are detrimental to liquidity and success of a business.

It is alleged that a business that wishes to efficiently manage working capital tends to implement optimum rather than minimum or maximum working capital, aiming to maximize cash flow while meeting short-term financial obligations.(Liapis,2010).Competent assessment of working capital involves focus on optimizing the balance between its current assets and liabilities, such as inventory, creditors, debtors and cash, can help a business make competent decisions about operational activities, and assist them manage working capital efficiently,leading to the best possible level of liquidity and profitability (Atseye et al., 2015).

As such a number of studies looked at several WCM strategies to determine their impact on the level of risk and profitability of a business (Jaworski and Czerwonka,2024). Afza and Nazir in (2007),Briones et al. (2024), indicated in their findings that a relatively aggressive working capital approach leads to higher profitability of a business. Opposing evidence is indicated in the conclusions of a research by Afza and Nazir (2007) which found a negative relationship between the aggressiveness of working capital management policies and a business's profitability. They argue that this outcome may be due to the volatile economic environment of Pakistan at the time. Further studies by Delima, V. J. (2023) and Afza and Nazir (2007) did not find a strong relationship between the working capital management policies of businesses and the operating and financial risks.

Banos et. al.(2020) stated that working capital plays a significant role during economic crisis, such as the Covid-19 crisis. Afrifa et al.(2017) stated that efficient management of working capital improves operational efficiency, reduces costs, and increases profitability (Sogomi et al., 2024).According to Eljelly (2014), effective management of liquidity depends

on how working capital is managed. Some of the studies on working capital management policies undertaken in Europe, are those of Usman et al.'s (2017) study of Danish, Norwegian, and Swedish businesses from 2003 to 2015, and Howorth and Westhead's (2003) research on UK businesses.

Similar studies of WCM have also been done in developing economies, such as Santiago et al.(2022), Bin et al.'s (2019) studies on East Asian emerging markets, Alshammari's (2018) research on the emerging markets in Gulf Cooperation Council countries, Ding et al.'s (2013) study of Chinese firms, Wasiuzzaman's (2015) study on Malaysian firms, and Mielcarz et al.'s (2018) study of Polish companies. Research on the impact of WCM policies on organisational profitability was conducted by Charitou et al. (2010) who investigated the impact of WCM and control on business profitability within developing markets.

Data Collection and Research Methodology

Collection of the Data

The survey questionnaire was distributed to 150 NEX Exchange and AIM listed SME businesses. Out of the 150 qustionaires,66 was returned, 2 of which were uncompleted and a further 2 were unusable. Therefore, of the 66 questionnaires returned, 62 representing 41.3% of the total sample were usable and could be further analysed. Though the response rate was low, it was comparable to similar studies involving questionnaire survey of SMEs(Afrifa (2013; Jusoh et al. 2008; Ahmad 2012) who reported response rates of 29.3%,12.3% and 17.5%, respectively. The questionnaire was constructed with the sole objective of collecting data on the dual impact of COVID-19 financial crisis on WCM policies and Cash flow/Liquidity from the perceptions of the owners and managers of NEX Exchanges,FSB and AIM listed SME businesses.

Internal Validity (Reliability Test)

Reliability and validity tests are necessary to make sure the accuracy and consistency of the variables. Hair et al. (2007) indicates that for a questionnaire scale to be dependable, the questions must be replied to consistently by respondents in a manner that is highly related. If this does not happen, then the scale cannot be considered dependable. For the purposes of this study, the reliability of the questionnaires was measured by means of Cronbach's alpha. This technique allows the computation of the alpha coefficient, if one variable is removed from the original set, allowing identification of the subcategory that has the highest reliability coefficient. If all the outcomes are above 0.7, the scales are considered dependable (Sousa et al., 2006). However, Hair et al. (2007) indicate that small coefficients may be adequate, depending on the study aims and objectives. For instance, Nunnally (1978) suggested that alpha coefficients of 0.50 to 0.60 are considered adequate for exploratory studies. This means that the instruments used in this study were acceptable and of a high level of reliability.

Results and Discussion

This segment provides an account of the data (in the form of the questionnaire responses) and presents the findings in relative to the research hypotheses and objectives: (i) to find evidence that the COVID-19 financial crisis may have a relationship with WCM of UK SME businesses, (ii) to find evidence that the financial challenges due to COVID-19 may impact

both the WCM and cash flow/liquidity of UK MSMEs due to the reduced level of consumer demand (market channel).
(iii) to find evidence that the COVID-19 financial crisis may impact both the WCM and cash flow/liquidity due to SMEs perception about the economic outlook of the UK (Emotional Channel)

The findings are indicted logically in the order of Questions/Tabs 1 to 13. The first part of the analysis starts with the first three questions in the tabulations, which includes the categories of businesses or the number of employees in the business (micro,small, and medium), the sectors of the businesses, and the roles the respondents in their businesses (owner, manager, and accounts manager).The second part of the paper presents the results in the tabulations below in relation to the overall regression results.

Variable Description and Summary
Tab (1)
Number of employees in the business by percentage of respondents

Tab1	Number of employees in the business
Tab 2	Business Sectors
Tab 3	Role in the organisation
Tab 4	COVID-19 financial crisis impacted business WCM
Tab 5	COVID-19 financial crisis has impacted business cash flow/liquidity
Tab 6	Issue with the biggest negative impact on both the WCM and cash flow/liquidity due to the COVID-19 financial crisis
Tab 7	Form of government support used
Tab 8	Key factor in reducing the adverse impact of the COVID-19 financial crisis on the WCM
Tab 10	Key factor in reducing the adverse impact of the COVID-19 financial crisis on cash flow/liquidity
Tab 11	Government furlough payments have prevented businesses make redundancies
Tab 12	Severity of COVID-19 financial crisis for businesses, despite Government support
Tab 13	How likely are the challenges caused by the COVID-19 financial crisis make businesses go into insolvency
Tab 14	General perception of the economic impact of the COVID-19 financial crisis in the UK

Number of employees in the business	Freq.	Percent	Cum.
Micro Businesses: 0-10	20	32.26	32.26
Small Businesses: 11-50	26	41.94	74.19
Medium Business> 51-250	16	25.81	100.00
Total	62	100.00	

As indicated in Table (1) above, the number of usable responses was 62, from which it is clear that the majority of the respondents (42%) were small businesses with 11 to 50 employees, while 32% were micro businesses with 0 to 10 employees, and 26% were medium businesses with 51 to 250 employees. Therefore, the majority of the usable respondents were from the small business category.

Role of Respondents and Classification/Sector of the Businesses

This section describes the role and classification/sector in the business by percentage of respondents as indicated in the tabulation below:

Tabulation (2)

Role in the business	Freq.	Percent	Cum.
Owner	16	25.81	25.81
Manager	30	48.39	74.19
Accounts manager	16	25.81	100.00
Total	62	100.00	

As revealed in Tab (2) above, with regards to the positions occupied by respondents within their businesses, 48% were managers, 26% were owners, and another 26% were accounts managers. Therefore, most of the respondents were managers of their businesses. In terms of the industry classification/sector of the business by percentage of respondents, the results show that the majority of the respondents' 47%t were businesses operating in the retail, 29% in hospitality, 10% in hairdressing, 6% in social-care businesses, 5% in gyms, and 3% in others. Thus, the majority of the respondents were in retail and hospitality sectors as indicated in the tab (3) below:

Tabulation(3)

Category of the businesses	Freq.	Percent	Cum.
Retail	29	46.77	46.77
Hospitality	18	29.03	75.81
Hairdressers	6	9.68	85.48
Gym	3	4.84	90.32
Social-care provider	4	6.45	96.77
Other	2	3.23	100.00
Total	62	100.00	

This Section Presents the Results in the form of Tabulations below in Relation to the Overall Regression Findings

Starting with the impact of COVID-19 financial crisis on the WCM of UK MSMEs. Tab (4)below,(85%) of respondents indicated that the COVID-19 financial crisis had impacted the WCM of UK MSMEs in a 'negative' or 'strongly negative' way. This is also indicated by the results in the descriptive statistics output (2).

Tabulation (4)

COVID19 financial crisis impacted WCM	Freq.	Percent	Cum.
Strongly negative	27	43.55	43.55
Negative	26	41.94	85.48
Neutral	6	9.68	95.16
Positive	3	4.84	100.00
Total	62	100.00	

In tabulation (5) below, the impact of COVID-19 financial crisis impact on cash flow/liquidity of UK SMEs, has been indicated by (87%) of respondents that the COVID-19 financial crisis has impacted the cash flow/liquidity of UK MSMEs in a 'negative' or 'strongly negative 'way. This finding has been supported by the descriptive statistics results in output (1), which reveals

the mean and the median values of two, which is less than the neutrality threshold of three. Also, the mode is one, meaning a strongly negative feeling among MSME businesses.

Tabulation (5)

COVID-19 financial crisis impacted cash flow/ liquidity	Freq.	Percent	Cum.
Strongly negative	29	46.77	46.77
Negative	25	40.32	87.10
Neutral	4	6.45	93.55
Positive	3	4.84	98.39
Strongly positive	1	1.61	100.00
Total	62	100.00	

In Tab (6) below, the issue that has major adverse impact on both the WCM and cash flow/liquidity of UK MSMEs due to the COVID-19 financial crisis has been indicated by around 90% of the respondents as being lockdown, which resulted to less business activities, sales and revenue.

Tabulation (6)

The factor with the biggest adverse impact on both the WCM and cash flow/liquidity due to the COVID-19 financial crisis	Freq.	Percent	Cum.
Lockdown	56	90.32	90.32
Lack of financing options	5	8.06	98.39
None	1	1.61	100.00
Total	62	100.00	

Tabulation (7)

Form of government support used	Freq.	Percent	Cum.
Loans	2	3.23	3.23
Grants	16	25.81	29.03
Furlough	36	58.06	87.10
None	8	12.90	100.00
Total	62	100.00	

Tab (7) above indicates that the most popular type of government assistance used by the respondents was furloughing (58%), followed by grants (26%), and loans (3%). Due to the financial challenges caused by the pandemic, the government support programme known as furloghing, whereby the government pays 80% of the wages of some employees while the businesses themselves pay 20% to avoid making employees redundant was the most utilised form of assistance according to the results.

Tabulation (8)

The most important factor reducing the adverse impact of the COVID-19 financial crisis on the WCM	Freq.	Percent	Cum.
Government loans	3	4.84	4.84
Government grants	24	38.71	43.55
Furlough	30	48.39	91.94
None	5	8.06	100.00
Total	62	100.00	

As indicated by Tab(8) above, the most important factor reducing the negative impact of the COVID-19 financial crisis on the WCM is the furloughing support programme (48%), followed by government grants (39%).

Tabulation (9)

The most important factor reducing the adverse impact of the COVID-19 financial crisis on cash flow/liquidity	Freq.	Percent	Cum.
Government loans	4	6.35	6.35
Government grants	23	36.51	42.86
Furlough	29	46.03	88.89
Deferred rent or rate payments	3	4.76	93.65
Other	4	6.35	100.00
Total	63	100.00	

Again, as revealed in Tab (9) above, the most important factors that reduce the adverse impact of the COVID-19 financial crisis on cash flow/liquidity for the respondents were furloughing (46%), followed by government grants (36%).

Tabulation (10)

Government furlough payments help in averting redundancies	Freq.	Percent	Cum.
Yes	29	46.77	46.77
No	18	29.03	75.81
Rather not say	15	24.19	100.00
Total	62	100.00	

The results in Tab(10) above, 46% of respondents indicated that government furlough payments helped them avoid making redundancies. Government paying 80% of some staff wages, has helped their cash flow issues due to the sudden income loss and the subsequent financial challenges caused by the pandemic.

Tabulation (11)

Severity of the COVID-19 financial crisis for SMEs, despite government support	Freq.	Percent	Cum.
Very severe	19	30.65	30.65
Severe	21	33.87	64.52
Very minimal	9	14.52	79.03
Minimal	10	16.13	95.16
No impact	3	4.84	100.00
Total	62	100.00	

The results presented in Tab (11) confirmed that, despite government support, the impacts of the COVID-19 financial crisis on the participants' businesses were severe or very severe indicated by around 64% of the respondents. This means that even though government support systems such as furloughing helped MSME businesses, the COVID-19 financial crisis was severe and could have been worse without the support programmes which lessened its severity.

Tabulation (12)

The probability that the challenges posed by the COVID-19 financial crisis will cause the participant's businesses to go into liquidation	Freq.	Percent	Cum.
Very likely	3	4.84	4.84
Likely	7	11.29	16.13
Least likely	28	45.16	61.29
Unlikely	24	38.71	100.00
Total	62	100.00	

As indicated in Tab (12) above, only 16% of the participants felt that the COVID-19 financial challenges was likely to cause their businesses to go bankrupt. This result is telling because even though 64% of respondents in Tab(11) indicated that the impact of the pandemic has been severe/very severe on their businesses, only 16% believed they would go into liquidation, this is supported by the descriptive Statistics results in output (3).This optimism may be due to several factors such as the government's overall handling of the economic crisis and the belief that the easing of the lockdown and other rules such as social distancing may enhance customer footfall and revenue.

Tabulation (13)

Overall perceptions of the economic impact of the COVID-19 pandemic in the UK	Freq.	Percent	Cum.
Very bad	51	82.26	82.26
Bad	8	12.90	95.16
Not too bad	2	3.23	98.39
No impact	1	1.61	100.00
Total	62	100.00	

Tab(13), 95% of the respondents perceived the overall economic impact of the COVID-19 financial crisis in the UK to be 'bad' or 'very bad', This is supported by the results of descriptive statistics in output (4).

Descriptive Statistics

This section describes the descriptive statistics of the COVID-19 financial crisis impacts on cash flow/liquidity and WCM of UK SMEs. Secondly, whether these impacts will lead to many SMEs bankruptcies, and finally the perceptions of SMEs about the overall economic outlook in the UK due to the financial crisis in Outputs 1-4 to support the main regression results of the study.

Impact of Covid-19 financial crisis on the cash flow/liquid of UK SMEs

Output (1)	N	Mean	Median	Mode	SD	Min	Max
Q5	62	1.742	2.000	1	.904	1	5

Note:1 = 'Strongly negative',2 = 'Negative', 3 = 'Neutral',4 = 'Positive',5 = 'Strongly positive'

As shown in output(1) above, the descriptive statistics of the COVID-19 financial crisis impact on the cash flow/liquidity of UK MSMEs, indicates a mean and median of 2, a value below the neutrality threshold of 3.The mode is 1, corresponding to a strongly negative feeling as shown above. This implies that the COVID-19 financial crisis had an adverse impact on the cash flow/liquidity of UK MSMEs.This is due to factors such as lockdown((Market

Channels)and financing challenges which undoubtedly impact the four key components of working capital: cash, inventories, accounts receivables, and accounts payable. Bank lending theory also suggests that during financial crisis, banks tend to limit loans to businesses, in particular SMEs (Nilsen, 2002,Ivashina and Scharfstein 2008).

Impact of Covid-19 financial crisis on the WCM of UK MSMEs

Output (2)	N	Mean	Median	Mode	SD	Min		Max
Q4	62	1.758	2.000	2	.824	1		4

Note: 1 = 'Strongly negative', 2 = 'Negative', 3 = 'Neutral', 4 = 'Positive', 5 = 'Strongly positive'

According to the results descriptive statistics of the COVID-19 financial crisis impact on the WCM of UK SMEs, the mean and median values around 2, this less than the neutrality threshold of 3,as shown in output (2) above. Again, this illustrates that the COVID-19 financial crisis had an adverse impact on the WCM of UK MSMEs,due to factors such as lockdown(Market Channels),and the financing challenges, affecting the four key components of working capital: cash, inventories, accounts receivables and payable. These conclusion is strengthened by the regression findings indicated in Tab(4).

COVID-19 financial crisis to cause MSME businesses to go into bankruptcy.

Output(3)	N	Mean	Median	Mode	SD	Min	Max
Q12	62	3.177	3.000	3	.82	1	4

Note: 1 = 'Very likely', 2 = 'Likely', 3 = 'Least likely', 4 = 'Unlikely'

The result of descriptive Statistics on the likelihood of many SMEs going insolvent due to the financial challenges caused by the COVID-19, is indicated as unlikely, hence the mean, median, and mode are all around 3, which means 'least likely'. This indication is telling, because despite the financial challenges caused by the COVID-19 financial crisis, these businesses are still optimistic about their future prospects. This may be due to factors such as the easing of lockdown rules, which may eventually lead to higher customer demand and sales, or due to government support programmes such as furloughing and grants, as indicated in output (3) above. Again, these conclusions are in line with the regression results in Tab(11),where only 16% believed they will be bankrupt.

MSMEs Overall perception of the economic impact of the COVID-19 financial crisis in the UK

Output(4)	N	Mean	Median	Mode	SD	Min	Max
Q13	62	1.242	1.000	1	.592	1	4

Note: 1 = 'Very bad', 2 = 'Bad', 3 = 'Not too bad', 4 = 'No impact', 5 = 'Don't know'

The descriptive Statistics on MSMEs perception about the overall economic outlook(emotional channel) in UK has demonstrated that the impact of the COVID-19 financial crisis was adverse. The results have shown that the overall economic impact due to the COVID-19 financial crisis in the UK was severe, indicated by a mean, median, and mode that

are all around a value of 1 which corresponds to 'Very bad. Again, these outcomes are in line with the regression results in in Tab (13),where 95% of the respondents perceived the overall economic impact of the COVID-19 financial crisis in the UK to be 'bad' or 'very bad.

Conclusion

The aim of this study was to investigate the dual impact of the COVID-19 Financial crisis on WCM policies and cash flow/liquidity from the perspectives of the owners and managers of NEX Exchange,FSB and AIM listed UK MSMEs. Though a number of researchers have investigated WCM during and post financial crisis (e.g., Simon et al., 2017; Pawel et al., 2017; Baveld, 2012),none have studied the impact of the COVID-19 financial crisis on the working capital management of UK SMEs.

The study was based on 62 responses from a questionnaire distributed to 150 NEX exchange and AIM listed MSMEs.Using Structural Equation Modelling(SEM),the following key conclusions were reached, (1) The COVID-19 financial crisis has adversely impacted the WCM policies of UK Micro,Small and Medium Sized Enterprises(MSMEs) due to reduced customer demand (market channel) and MSMEs'expectation or perceptions of the overall economic outlook in the UK (emotional channel).

(2) The COVID-19 financial crisis adversely impacted the cashflow/liquidity of UK MSMEs, due to the reduction in the level of consumer demand and the consequent reduction in business turnover (market channel) caused by lockdowns.

(3)The COVID-19 financial crisis impacted both the WCM and cash flow/liquidity of UK MSMEs due to worries/feelings concerning the severity of the COVID-19 pandemic and the overall economic outlook in the UK (emotional channel).

The study makes significant contributions to extant literature and has implications for MSMEs and policy makers. The study contributes by providing original evidence that COVID-19 financial crisis had a dual adverse impacts on both the WCM and cash flow/liquidity of UK SMEs, as there was no such study that has provided such evidence in the UK.In terms of policy implications, are that the government's overall handling of the pandemic and the resulting economic crisis, as well as its interventions and support systems may have helped some MSME businesses avoid bankruptcy or lessen the impacts of the unprecedented economic downturn in the UK. The results can serve as a lesson from which MSME businesses can learn in terms of the importance of efficient management of working capital, during any period, but more so during a financial crisis, such as the COVID-19 health pandemic(García-Teruel and Martínez-Solano, 2007; Sensini, 2015; Padachi, 2006; Amendola et al., 2011; Campos et al., 2014).The findings can also assist policymakers and SMEs to mitigate similar crises in the future.

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