

WORKING CAPITAL MANAGEMENT OF SMES IN CARCANMADCARLAN

Michelle P. Yu*, Maris A. Angelia¹, Shionie A. Juagpao

¹ Surigao del Sur State University, College of Education, Business and Management, Cantilan, Surigao del Sur, Philippines

*For correspondence; Tel. + (63) 947-334-8609, E-mail: queen_misyel@yahoo.com.ph

ABSTRACT: *This study assessed the SMEs in CarCanMadCarLan with regard to developing their businesses. This shows the practices used by companies in handling their business. The descriptive survey method of the research was utilized in this study using questionnaire as the main instrument in gathering data of the study. The respondents of the study were composed of the Small Medium Enterprises in CarCanMadCarLan. The study revealed that the type of business of the SMEs is Sole Proprietorship and majority of them were on retailing business. Majority of the SMEs employ 1-10 people. Furthermore, most of the SMEs have been in business for a period between 0-5 years and had a capitalization between P500, 000.00 to P1, 000,000.00. The study revealed that SMEs relied on manual methods of inventory and majority does not know anything about electronic devices. Owner's/manager's experience was found to be more important than the application of theories of both inventory and cash balances. The SMEs lack resources to manage their receivables, no proper debt collection and no credit officers were employed. It is therefore extremely important that the SMEs would enhance the practices in developing and managing their business. The researchers suggested activities that are particularly suitable for the owners of the SMEs in CarCanMadCarLan.*

Keywords: SMEs, Working Capital Management, Cash Management, Accounts Receivable Management, Accounts Payable Management, Inventory Management

1. INTRODUCTION

Working capital management is vital for every business organization. The current assets of a typical manufacturing firm accounts for over half of its total assets. For a distribution company, they account for even more. Excessive levels of current assets can easily result in a firm's realizing a substandard return on investment. However, firms with too few current assets may incur shortages and difficulties in maintaining smooth operations. Businesses are therefore required to maintain a balance between liquidity and profitability while conducting their day to day operations. Liquidity (cash and cash equivalents) is a precondition to ensure that firms are able to meet their short-term obligations when they fall due and at the same time ensuring that profitability is maintained. A company must be able to generate sufficient cash to be able to meet its immediate obligations and therefore continue trading. Inadequate working capital decisions and accounting information have been referenced consistently as causes of small and medium enterprises failure.

One of a managerial accounting strategy is working capital management. It is designed to check and make use of the two components of working capital, current assets and current liabilities, to guarantee the most financially efficient operations of the company. Through proper working capital management will enable the company to maintain sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

According to Barrow, there is enough evidence which point to small and medium enterprises being inefficient users of working capital. As he puts it, "the smaller they are, the less efficient they tend to be"[1]. The role of Small and Medium Scale Enterprises (SMEs) in the world economy have been highly emphasized as the means through which rapid industrialization and other development goals of a nation can be realized. Despite their significance and the increased efforts by governments and other stakeholders to ensure the success of small scale enterprises, they continue to exhibit high birth rates and high death rates [2]. Although, there are

many studies conducted about the Working Capital Management of SMEs, specific researches exclusively on cash management practices and financial performance of Small Medium Sized Enterprises are scarce, especially in the case of CARCANMADCARLAN.

The working capital management practices of small businesses in Carrascal(CAR) ,Cantilan (CAN), Madrid (MAD), Carmen (CAR), and Lanuza (LAN), a region dominated by small scale businesses, were an ignored area of research. Keeping this in view, including the wider recognition of the practices used by the SME sector, the study explored the effect of effective cash management practices on financial performance of sampled SMEs in the CARCANMADCARLAN. Its results were expected to contribute to the existing literature on cash management practices of SMEs.

The main objective of this study therefore was to evaluate working capital management practices of small scale enterprises in CARCANMADCARLAN.

The study assessed the cash management, accounts receivable, inventory management and accounts payable practices of small and medium scale enterprises registered in CARCANMADCARLAN.

The significance of efficient working capital management (WCM) cannot be disputed in corporate viability, performance, sustainability and competitive entrepreneurship. Business viability relies to a greater extent, on its ability to effectively manage receivables, inventory and payables. Thus, much managerial effort is spent on bringing non-optimal level of current assets and liability back to their optimal levels. The need for funds and management of assets, viewed working capital management as involving decision on how large commitment of funds should be in the various assets categories [3].

However, the split between current assets (short-term financing) and fixed assets (long-term financing) since this tends to cloud the overall valuation of the firm. It does not make sense to diversify the various component of working capital management from fundamental investment and

financing decisions, in practices, it becomes necessary for firms to separate the two because working capital management is an integral part of a firms overall financial management.[4]. Implicit in the references cited above is the need for a wider view of working capital management. In support of this, the central question of working capital management is what type and how much of each of the current assets are ideal in order to maximize the returns to the owners of the organization. They therefore identified the task of the financial manager as trying to determine an optimum mix and quantity of current assets so that there is neither too little nor too much working capital [5]. The cross-sectional and time series data suggested that the industrialization process normally begins with rapid growth of small-scale industries, some of which grow to become medium and eventually large-scale firms while the rest survive the market niche where they can remain competitive with large-scale enterprises [6].

Other authors also argue that SMEs have advantages over their large-scale competitors because they are able to adapt more easily to market conditions given their skilled technologies. They explain that due to their flexible nature, SMEs are able to withstand adverse economic conditions [7]. They are more labour- intensive than larger firms and therefore, have relatively low cost of capital associated with job creation. The term SMEs covers a wide range of perception and measures, varying from country to country and between the so, total net assets, sales and investment level [8].

2. MATERIAL AND METHODS

The study was conducted using the descriptive survey design. The research design was preferred for the study since it provided a quick, efficient and accurate means of accessing information about the population and it is more appropriate where there is a lack of secondary data. The descriptive evaluation was meant to opinions and perceptions of owners/managers of small businesses on working capital management practices.

Participants and Procedure:

This study focused in the municipalities of Carrascal (CAR),Cantilan (CAN), Madrid (MAD), Carmen (CAR) and Lanuza (LAN), Surigao del Sur.

CarCanMadCarLan is a settlement area in the province of Surigao del Sur, Philippines and is about the northernmost quarter of the province.

The respondents of this study were the owners/managers of SMEs operating in CarCanMadCarLan whose capitalization was from P500,000.00-P15,000,000.00 and apply various working capital management practices.

The researchers believe that the data needed for this study can be given by the respondents who are engaged in a Small Medium Enterprise business.

Table 1. Respondents of the Study

Municipality	Population of SMEs	Sample Size
Carrascal	18	13
Cantilan	55	39
Madrid	74	52
Carmen	5	4
Lanuza	10	7
TOTAL	162	115

3. RESULTS AND DISCUSSION

After gathering responses from the respondents, the following data were obtained.

Table 2: Cash Management Practices

Activities	WM	VI
Monitors cash outlay	3.76	High
Keeping record of cash receipts	3.67	High
Cash flow projections was updated at least once a week	3.36	High
Optimize flows about cost reduction and managing operational risk	3.3	High
Paying a bill as soon as cash comes in	3.13	Moderate
Forecasting is done on a weekly basis	3.13	Moderate
Making daily deposits	3.1	Moderate
Having an on-line access or mobile access	2.71	Moderate
GRAND MEAN	3.27	HIGH

The table indicated that cash management practices were High with a grand mean of 3.27 among SMEs in CarCanMadCarLan. Monitoring cash outlay with a weighted mean of 3.76 was the highest among the practices but some of the businesses have no access in mobile nor in internet having a weighted mean of 2.71. This indicated that some SMEs in CarCanMadCarLan don't make use of high technology for faster work instead; they prefer to use the manual method.

Table 3 Accounts Receivable Management

Activities	WM	VI
Monitor all accounts receivable	3.77	High
Use "payment due upon receipts"	3.68	High
Keep a running record of all contracts	2.94	High
Credit and accounts receivable were keep tracked	2.87	High
Assess customer credit in their ability to pay by establishing credit policies	2.34	Moderate
Offer early payments discounts	2.34	Moderate
Call in a professional credit and accounts receivable outsourcing service	1.85	Moderate
Offer electronic payment options	1.82	Low
GRAND MEAN	2.7	MODERATE

Table 3 clearly showed that the extent of accounts receivable management among SMEs was Moderate with a grand mean of 2.7. The businesses monitor their accounts receivable having a weighted mean of 3.77. For them, this is essential to have control and careful collection management of their receivables. However, some of the SMEs do not offer electronic payment options having a weighted mean of 1.82.

Table 4 Inventory Management

Activities	WM	VI
Use proper asset categorization	4.05	High
Simplify re-ordering processes	3.84	High
Look for underlying problems	3.62	High
Reduce repair- cycle times	3.33	High
Use a solid forecasting capability that can help plan inventory	3.28	High
Maintain minimal stock levels	3.17	Moderate
Evaluate new array of models in inventory management covers from time to time	2.77	Moderate
Use automatic identification and data capture (AIDC) asset tracking processes	2.10	Low
GRAND MEAN	3.27	HIGH

Table 4 revealed that inventory management practices among SMEs in CarCanMadCarLan were High with a grand mean of 3.27. The findings further reveal that there was proper asset categorization of the SMEs with a weighted mean of 4.05. It is important to categorize assets for easy management of inventory. On the other hand, the results also showed that some of the SMEs does not use AIDC (Automatic Identification and Data Capture) having the lowest weighted mean of 2.10. Some of the SMEs in CarCanMadCarLan preferred to use the manual method than to divert for easier way through technology. This poses a big challenge since it ties up the working capital of the business.

Table 5 Accounts Payable Management

Activities	WM	VI
Always pay for original invoices	3.62	High
There is a policy in entering invoice number	3.03	Moderate
The amount of the invoices should be entered as billed	2.83	Moderate
All invoices have an account coding written	2.78	Moderate
Adopting more robust governance practices	2.73	Moderate
Centralizing accounts payable processing and reporting	2.62	Moderate
Do not enter invoices as a batch	2.57	Moderate
All invoices go to the accounting department first before being sent for approval	2.10	Low
GRAND MEAN	2.87	MODERATE

Table 5 showed that accounts payable management practices among SMEs in CarCanMadCarLan were Moderate with a grand mean of 2.87. It further showed that majority of the SMEs always pay their original invoices with a weighted mean of 3.62. However, the businesses do not prefer to go to the accounting department for the approval of their invoices getting the lowest mean of 2.1 maybe because they don't have the certain department in their business organization.

Table 6 Summary of Results

Activities	WM	VI
Cash Management Practices	3.27	High
Accounts Receivable Management	2.7	Moderate
Inventory Management	3.27	High
Accounts Payable Management	2.87	Moderate
Grand Mean	3.03	Moderate

The table showed that SMEs has moderate Working Capital Management most particular with their accounts receivable management. Cash Management Practices evidently have high applications as well as their management on their inventories.

4. CONCLUSIONS

Based on the results of the study the researchers concluded that SMEs in CarCanMadCarLan were often practicing some of the best activities at managing their working capital. In depth analysis of the study, it was revealed that SMEs relied on manual methods of inventory and majority was unaware of modern technologies that were widely used by other SMEs in improving their business operations through the use of electronic devices. Moreover, the owner's/manager's experience was found to be more important than the application of theories of both inventory and cash balances. The SMEs lack resources to manage their receivables, in particular they have no proper debt collection, accounting department and no credit officers were employed.

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