

## **Assessment of Working Capital Management Practices: Case Study on Small Business Enterprises in Selected Towns of South West Shoa Zone, Ethiopia**

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### ***Abstract***

*Working capital management is the most important part of financial management. Moreover, managing the key components of working capital like cash, receivables, and inventories presumes paramount importance. This study is aimed to assess the working capital management practices of small business enterprises in selected towns of South West Shoa Zone. The type of research employed in this study was descriptive research with a mixed approach. To achieve the objectives of the study, primary data were used and a combination of dichotomous and Likert scale questions were used for the survey purpose. Again, in the study proportional stratified sampling techniques was used. Questionnaires were distributed to 425 small business owners which were obtained from the total population of 2,939. In addition, interviews were made with managers of trade and industry office of South West Shoa Zone. To process data obtained from primary sources, SPSS version-20 was used. To visualize and facilitate the interpretation processes frequency tables, bar graphs, and pie charts were used. The findings revealed that, the majority of small business owners didn't undertake cash budget, bank reconciliation, and formal credit investigations before offering credit for their customers. The study also found that, most small business owners hardly keep proper records for their materials and goods and have no formal reorder policy for their stocks. The study suggested that, small business owners should maintain cash budget, prepare bank reconciliation, and formulate a convincing credit policy for their customers. Similarly, small business owners need to keep proper records for their materials and goods and create a re-order level policy. Lastly, all stakeholders such as government & non-government units, academic institutions should provide short term training.*

**Keywords:** *Working Capital Management Practices, Small Business Enterprises*

## **1. INTRODUCTION**

Most growth theories imply that, industrialization is a carrier of economic growth and development. However, for emerging economy like Ethiopia, whose economy is still predominantly agrarian, the issue of industrialization requires special attention through supporting and promoting the development of small business enterprises (Eshetu & Mammo, 2009). Ethiopia has been started a bold journey of growth and transformation plan in 2010/2011. Hence, creating favorable conditions for the industry to play key role in the economy is one of the pillars of GTP. Accordingly, the primary focus has been on promoting the development of micro and small businesses enterprises and to promote the existing ones in to medium scale enterprises. In order to build the entrepreneurship and technical capacities of the business enterprises a number of training and counseling have been provided for promoters of micro and small businesses (Ethiopia National Planning Commission, 2015:9).

It is unquestionable that, these sectors increasingly seen as playing an important role in the economies of many countries. In Ethiopia too, these sectors contribute a lot for the country's development objectives (Eshetu & Mammo, 2009 cited in Fetene, 2010). Given this fact, however, still many small business enterprises faced various financial management problems. For instance, among these problems working capital management have probably been recognized as the most crucial one; since, working capital always helps a business concern to gain vitality and life strength (Wubishet, 2014).

Gaskill and Van Auken, (1993) argued that, the most internal problems known by small business enterprises in US relate to insufficient capital, cash flow management and inventory control. Further, as cited by Atrill, (2001), studies done in the UK and the US have shown that poor working capital management and inadequate long-term financing were the primary cause of failure among small business enterprises. Basically, an enterprise must be able to generate sufficient cash so as to meet its immediate obligations and so that continue trading. Inadequate working capital decisions and accounting information have been referenced consistently as causes of small enterprises failure. In addition, according to Barrow, (2001: 56), small business enterprises are inefficient users of working capital.

Broom and Lengenecker, (1975), Haswell and Holmes, (1989), have shown that business failures were more prevalent among small business enterprises than larger one because of lack of proper management of their working capital. Given this fact, in the present day, the risk of business failure due to lack of sound working capital management practices became a basic issue that attract the attention many researchers. Evidence also revealed that, many small business enterprises which are profitable are forced to cease their operations due to the inability to meet their short term debts obligations resulting from problem in managing their working capital.

In Ethiopian, in spite of significant role of small business enterprises in the economy, their contribution is very low as compared to other African countries such as South Africa, Kenya, Tanzania, and Uganda mostly due to lack of adequate financial records, working premises, and raw materials (Mulu Gebreyesus, 2009:10-13). Klapper and Allende, (2006) revealed that, small business enterprises which were considered as change agents, since 1960s are still in the 21 century also facing with a number of problems. For instance, working capital management is one major problem among others. In fact, the case of Ethiopia is not different. For instance, according to Deresse & Abiy, (2014), there are many problems of working capital management practices of small business enterprises that need to be improved. Similarly, Nuru Mohammed, (2011) & Wubshet (2014) also confirmed that, the primary cause of an enterprise's failure is attributed to the poor management of working capital with respect to cash, receivables, payables, and inventories management. Accordingly, the study is designed to assess the working capital management practices of small business enterprises with respect to the four components

of working capital namely, cash management, receivables management, payables management, and inventories management. The research questions which guided the study were the following.

- How do small business enterprises manage their cash?
- What are the receivable management practices of the small business enterprises?
- How do small business enterprises manage their payables?
- How do small business enterprises manage their inventory?

## **2. LITERATURE REVIEW**

### **Working Capital Management**

Working capital management is an important part of financial management. The main purpose of the working capital management is managing the current asset and current liabilities effectively and maintaining adequate amount of both current asset and current liabilities. Likewise, management of key components of working capital like cash, receivables, and inventories presumes paramount importance due to the fact that the major position of working capital tied up in these assets (Paramasivan & Subramanian, 2009:165).

### **Components of Working Capital Management**

Basically, working capital constitutes various components of current assets and current liabilities. But, in this study the four key components of working capital such as cash, receivables, payables, and inventories were attempted.

### **Cash Management**

According to Block and Hirt (1992) in today's complex business practices in global environment the issue of cash management is becoming more important for financial managers. Cash management is one of the key areas of working capital management and it is the most liquid current asset. The term cash with reference to cash management can be used in two senses. In a narrower sense it includes coins, currency notes, cheques, bank drafts held by a firm. In a broader sense it also includes near-cash assets such as marketable securities and time deposits with banks.

Emery, et al., (2004) and Gitman, (2009) suggested that, the goal of the cash manager is to minimize the amount of cash the firm must hold for use in conducting its normal business activities, yet, at the same time, to have sufficient cash to take trade discounts, to maintain its credit rating, and to meet unexpected cash needs. According to (Boisjoly & Izzo, 2009) the incorporative style of cash management is dependent on the cycle of the business operation, and changes in cash management would directly influence working capital performance. In fact, various activities need to involve in maintaining the balance of cash, and thus, a company's competency should include the ability to formulate a cash management strategy including the harmonizing of cash inflows and 'outflows through cash budgeting and cash forecasting.

Brigham and Ehrhardt, (2008) indicated that, cash budgeting constitutes the projected cash receipts, cash disbursements, and cash balance over a period of time. The cash budget is an important tool for managers in maintaining a specified level of liquidity. According to Gitman, et al., (1979) cash forecasting consists of estimating cash needed for operations on a daily, weekly, monthly, or annual basis. It is largely dependent on business activities such as sales and marketing, production cycle, supply chain, cash collection, and cash disbursements.

### **Receivables Management**

Receivables are asset accounts representing amounts owed to the firm as a result of sale of goods or services in the ordinary course of business. Receivables constitute a significant portion of the total assets of the business. For instance, according to Martin, et al., (1991) receivables composed of around 25.97% of a typical firm asset. The size of the receivable is determined by a number of factors such as level of sales, credit policies, and trade credit. Level of sales is the most important factor in determining the size of accounts receivable. In fact, even in the same industry, a firm having a large volume of sales will be having a larger level of receivables as compared to a firm with a small volume of sales. Sales level can also be used for forecasting change in accounts receivable.

### **Payables Management**

In day to day business operations, it is common that, firms generally made an exchange on credit basis and record the debts as account payables (Block, Hirk & Short, 2000). Due to the fact that small businesses face limitation of financial access from other sources they rely heavily especially on trade credits. For instance, Western and Copeland (1989), and Gitman, (2009) argued that accounts payable are one of the major sources of unsecured short-term financing particularly for small business enterprises. Belt, (1979) further suggested that, accounts payable are more deferrable in that the average payment can be extended by managerial decision.

### **Inventory Management**

Horngren, Datar & Foster, (2013) defined inventory management as the planning, coordinating and controlling activities related to the flow of inventory through and out of an organization. Inventories constitute a major element of working capital. For instance, evidence shows that, inventory occupy 30 to 80% of the total current assets of the business concern. It covers the whole range of items starting from input of material and ending with output of finished products. It is, therefore, important that investment in inventory is properly managed. Crum, et al., (1983) argued that, inventory management plays an important role in business activities such as purchasing, producing, and marketing. Moyer, et al., (2009) also identified maintaining appropriate level of inventory is concerning with the cycle of business activities, and it incurs inventory related costs such as ordering, carrying, and shortage costs.

### **Empirical Evidences**

This part of the paper summarizes some most recent empirical evidences related to the study. Accordingly, Berry et al, (2002) reviewed financial management practices SMEs. The findings indicated SMEs have not developed their financial management practices to any great extent and they concluded that owners need to be made aware of the importance and benefits that can accrue from improved financial management practices. Gebreghiorgis, (2004) analyzed the efficiency in working capital management practices in Keren Metal, Wood and Cement industries of a manufacturing firm operating under joint venture in Eritrea. The study revealed that, the firm only managed the working capital to ensure that the internal control of the firm is maintained and not to create value by optimal utilization of the working capital. Salaw R.O, (2006) also summarized the working capital management practices of firms in Nigeria and confirmed that, aggressive working capital investment policy should be matched with a conservative working capital financing to mitigate risks.

Merzek and Polewski, (2006) studied working capital management practices of six construction firms in Poland and point out that majority of the observed firms used moderate net working capital management strategy and very few firms have used conservative strategy. Pandey and Upadhyay, (2007) had undertaken the study to evaluate the efficiency of management of working capital in Bokaro Steel Plant during the period from 1999 - 2005. Results indicated that position of payment of liability was unsatisfactory but the management of inventory and receivable was good.

Another important study on working capital management was a study by Chowdhury and Amin, (2007). The researchers have done their study on working capital management practices in pharmaceutical companies listed in Dhaka stock exchange of Bangladesh. Their finding suggested that, the sample firms in the industry have been efficient in managing Cash, Receivables and Payables. They further concluded that, for the industry under study, maintaining large volume of inventory doesn't reflect inefficient management. Anita Pieteron, (2012) studied working capital management practices of small and medium scale enterprises in the Western Region of Ghana. In the study, the finding shows that, most small and medium scale enterprises were not good in managing their working capital.

Deresse and Abiy, (2014) on their part studied the working capital management practices in Ethiopia on selected business enterprises of Jimma Town. The researchers argued that, there are several problems in working capital management practices of business enterprises that need to be improved. For instance, lack of scientific business management techniques, lack of computerized system for data processing, and poor credit sales were among others.

### **Gap Identified**

Although, many scholars provided much descriptive and empirical evidence on working capital management practices, still there are gaps in the literature which need to be addressed so as to fill the existing body of knowledge. For instance, from the above summary of empirical evidences, one can conclude that very few researches have been carried out in the area of working capital management practices of small business enterprises in Ethiopia context. In addition, most researchers didn't try to relate theories of financial management; particularly working capital management with what is really practiced in small business sectors. Moreover, as far as efficiency in working capital management is very much important for the small business enterprises, prior researchers didn't try to show which specific area or areas of working capital management practices required special attentions. So, by taking in to consideration all the above state of affairs, this study tried to examine working capital management practices of small businesses by filling the gap which bothered little by prior researchers.

### **3. RESEARCH METHODOLOGY**

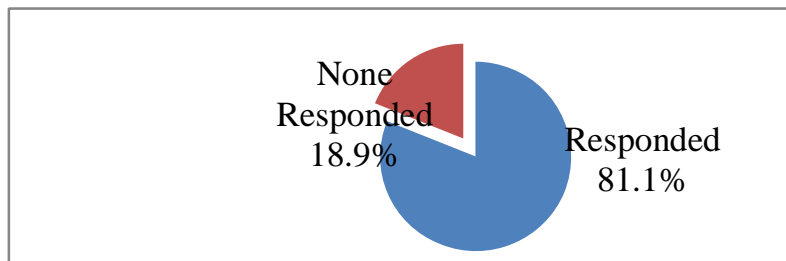
This study was designed to assess the working capital management practices of small business enterprises of selected towns of South West Shoa Zone. The type of research employed in this study was descriptive research with a mixed research approach. In order to achieve the objectives of the study, primary source of data were used. Again, in this study, a proportional stratified sampling technique was used. Questionnaires were distributed to 425 small business enterprises which were obtained from the total population of 2,939. In addition, interviews were made with managers of trade and industry office of South West Shoa Zone. A combination of dichotomous and Likert scale questions were used for the survey purpose. To process the data obtained from primary source SPSS version-20 was used. Lastly, to visualize the data and to facilitate the interpretation processes, frequency tables, bar graphs, and pie charts were used.

### **4. RESULTS & DISCUSSIONS**

#### **Response Rate**

In this study 425 self-administered semi-structured questionnaires were randomly distributed to the owners of small business enterprises with an expected return of 340. However, actually 345 questionnaires were collected back and posting a response rate of 81.1%; whereas, the remaining 18.9 % didn't.

Figure 4.1 below shows details about the response rate.



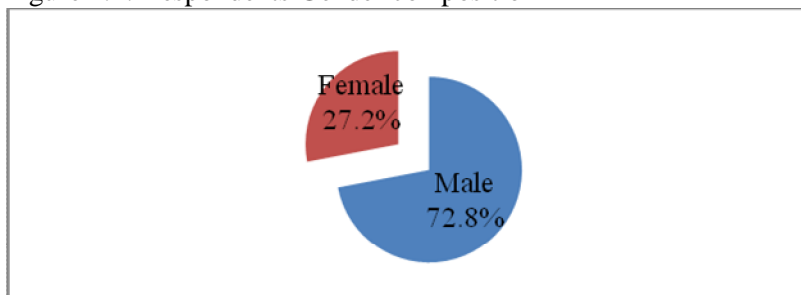
Source: Small business survey, March., 2018

### Respondent Characteristics

The demographic characteristics of the respondents in terms of gender, level of education, number of employees, and type of firm can be presented as follows.

#### Gender

Figure 4.2: Respondents Gender composition

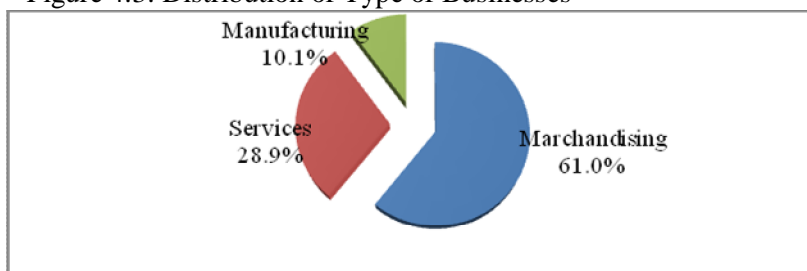


Source: Small business survey, March., 2018

As it can be seen from figure 4.2 above, the majority of the small businesses owners in the study area were males. This accounted for a proportion of 72.8% as compared to 27.2% of small businesses who were owned by female. This indicates that, most owners of small business firms were owned by men.

#### Business Type

Figure 4.3: Distribution of Type of Businesses

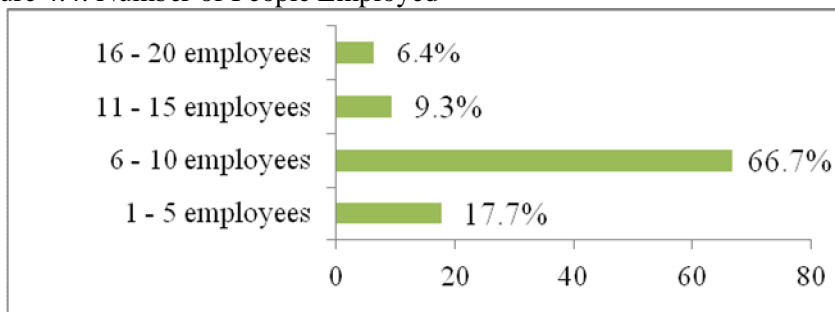


Source: Small business survey, March., 2018

Figure 4.3 above depicts distribution of types of businesses. Accordingly, 61% and 28.9% of the small firms were engaged in merchandizing and service business respectively; whereas, only 10.1% of the respondents were engaged in manufacturing sector. This finding implies that, the majority of small businesses were engaged in merchandising businesses in South West Shoa Zone as compared to manufacturing and service businesses.

**People Employed**

Figure 4.4: Number of People Employed

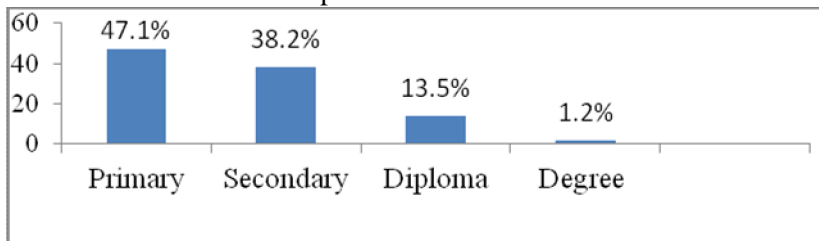


Source: Small business survey, March, 2018

As it can be observed from figure 4.4 above, 66.7% of small businesses in the study area employed between 6 -10 employees whereas, 17.7% of the small business owners in the study area claimed that they have created job opportunity for about 1 to 5 employees. Finally, 9.3% and 6.4% of small business owners in the study area reported that they provided job opportunity between 11-15 and 16-20 citizens respectively. This implies that, the majority of sample small business owners have employed between 6-10 workers.

**Respondents Level of Education**

Figure 4.5: Distribution of Respondents Education Level



Source: Small business survey, March, 2018

Regarding respondents level of education, the study indicated that, 47.1% and 38.2% of owners of small businesses have attained primary and secondary school respectively whereas, the remaining 13.5% and 1.2% have a college Diploma and first Degree respectively. In this regards, knowledge of accounting systems are directly related to level of education and knowledge that an individual has acquired. So, this finding implies that, the majority of owners of small businesses in the study area did not have adequate knowledge that helps them successfully manage their businesses operation (Figure 4.5).

**Cash Management Practices**

Table 4.1: Do you prepare Cash Budget?

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Never	228	66.1	66.1	66.1
Rarely	55	16.0	16.0	82.1
Sometimes	33	9.6	9.6	91.7
Often	18	5.2	5.2	96.4
Always	11	3.1	3.1	100.0
Total	345	100.0	100.0	

Source: Small business survey, March, 2018

Regarding the preparation of cash budget around 66.7% of the respondent never prepared a cash budget whereas, 16% and 9.6% of the respondents prepare cash budget rarely and sometimes respectively. Moreover, 5.2% and 3.1% of small businesses prepare cash budget often and always. This implies that, the majority of small business owners didn't maintain cash budget so that it was very difficult to determine the current and future need for cash.

Table 4.2: Do you face cash shortage for your operations

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Never	17	4.9	4.9	4.9
Rarely	27	7.8	7.8	12.7
Sometimes	250	72.5	72.5	85.2
Often	39	11.4	11.4	96.6
Always	3.4	3.4	3.4	100.0
Total	345	100.0	100.0	

Source: Small business survey, March, 2018

As it can be seen from table 4.2 above 72.5% and 11.4% of small businesses face the problem of cash shortage sometimes and often respectively. In the same analysis, 11.4% and 7.8% of the sample small businesses had experienced cash shortage often and rarely respectively. Moreover, 4.9% never face the problem of cash shortage whereas; 3.4% of sample small firms have always faced cash shortage. This analysis indicated that, the majority of small business owners sometimes faced the problem of cash shortage.

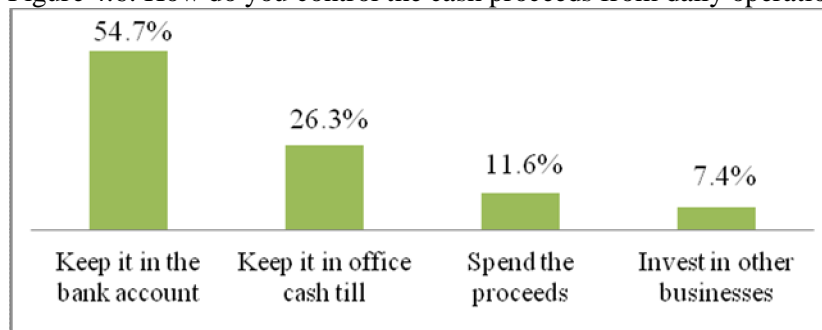
Table 4.3: How often do you send money to a bank?

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Daily	115	33.3	33.3	33.3
Weekly	184	53.3	53.3	86.6
Monthly	46	13.4	13.4	100.0
Total	345	100.0	100.0	

Source: Small business survey, March, 2018

Regarding how often owners of small businesses sent their money in a bank 53.3% sent their money weekly to a bank whereas; 33.3% and 13.4% of small businesses have sent their money monthly and daily respectively. This shows that, more than half of small businesses have deposited their money in a bank on weekly basis (table 4.3 above shows details).

Figure 4.6: How do you control the cash proceeds from daily operations?



Source: Small business survey, March, 2018



As to how the small business owners have invested their surplus cash generated from day to day operations, figure 4.6 above shows that, 54.7% of them deposited their money with the bank whereas, (26.3%) keep it in office cash till. The remaining 11.6% and 7.4% decided to spend their proceeds and made investment in short-term securities respectively. The implication to this finding was that, the majority of small business owners keep their proceeds in bank account rather than investing in long-term investments.

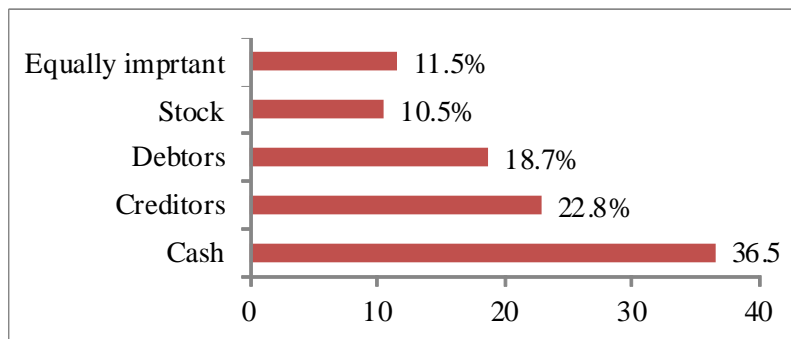
Table 4.4: Do you prepare bank reconciliation for your business

Response	Frequency	Percentage
Yes	110	23.9
No	235	76.1
Total	345	100

Source: Small business survey, March, 2018

Table 4.4 above indicated bank reconciliation practices of small business owners. Accordingly, it is shown that, 76.1% of them didn't perform bank reconciliation whereas; the remaining 23.9% did perform bank reconciliation. This indicates that, the significant majority of small business owners didn't undertake bank reconciliation for their firms.

Figure 4.7: To which components of working capital do you give more emphasis to manage?



Source: Small business survey, March, 2018

As it is clearly seen from figure 4.7 above, regarding with components of working capital that require more emphasis, 36.5% of the respondents responded that cash management requires the first place as 22.8% and 18.7% of the respondents said that creditors and debtors require preference respectively. On the other hand, 11.5% of the owners of small businesses responded that all of the working capital components were equally important and 10.5% of the respondents indicated that stock requires preference. This finding indicates that, most of small business owners give priority for cash management as compared to other working capital components.

**Receivables Management Practices**

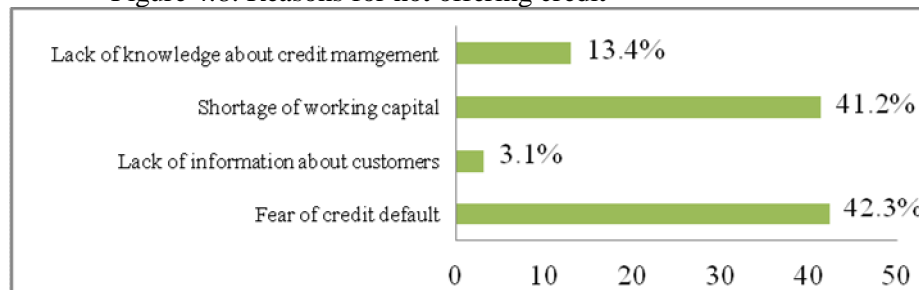
Table 4.5 Do you sell goods on account?

Response	Frequency	Valid Percent	Cumulative Percent
Never	102	41.5	41.5
Rarely	13	5.3	46.8
Sometimes	80	32.5	79.3
Often	27	11.2	90.5
Always	23	9.5	100.0
Total	245	100.0	

Source: Small business survey, March, 2018

Regarding credit sales table 4.5 above indicated the credit sale of merchandise and manufacturing businesses. Accordingly, 41.5% of small businesses didn't offer credit sale while, 32.5% of small business owners sometimes sell their product on account. Again, 11.2%, 9.5%, and 5.3% of small business owners offer credit sales often, always, and rarely respectively. This indicated that, most of small businesses owners did not undertake credit sales.

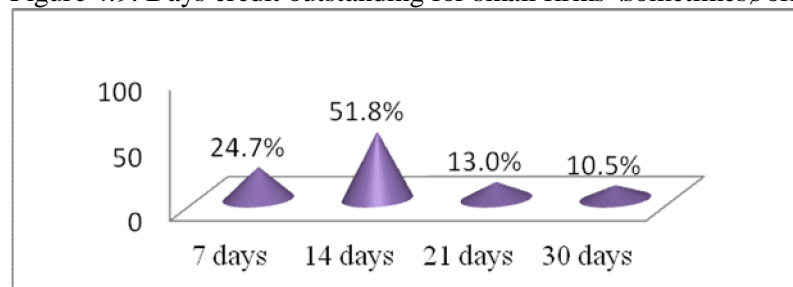
Figure 4.8: Reasons for not offering credit



Source: Small business survey, March, 2018

Figure 4.8 above indicated reasons that small business owners not offering credit sales, usually merchandise and manufacturing businesses. Therefore, 42.3% of the respondents replied they didn't offer credit sales because of fear of credit default whereas, 41.2% of the respondents responded that credit was not offered because of limitations of working capital. Similarly, 13.4% and 3.1% of the respondents replied credit was not offered because of that lack of credit management knowledge and lack of information about customers respectively. This finding shows that, most small business owners didn't grant credit sales mainly because of fear of default risks and shortage of working capital.

Figure 4.9: Days credit outstanding for small firms -sometimes offered credit sales



Source: Small business survey, March, 2018

Regarding small business owners who sometimes grant credit sales, commonly merchandising and manufacturing businesses; 51.8% provided credit period of 14 days as 24.7% provided 7 days. In the same way, 13% and 10.5% of the owners of small firms were provided credit period of 21 and 30 days respectively. This shows that, more than half of small business owners grant credit period of 14 days (figure 4.9).

Table 4.6: How often do you carryout formal credit investigation before granting credit?

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Never	126	51.5	51.5	51.5
Rarely	50	20.4	20.4	71.9
Valid Sometimes	39	15.8	15.8	87.7
Often	23	12.3	12.3	100.0
Always	7	0.0	0.0	
Total	245	100.0		

Source: Small business survey, March, 2018

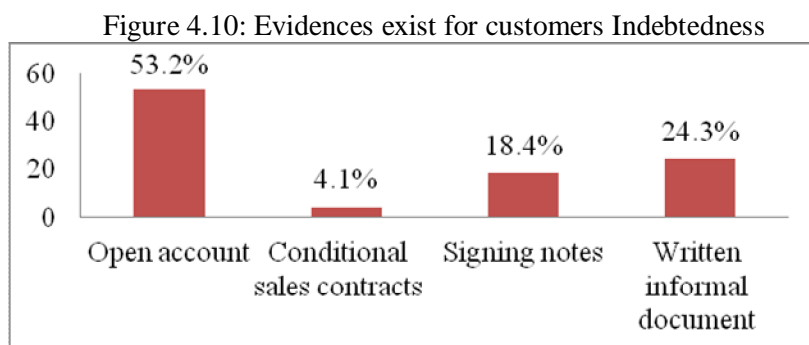
With regard to how often small business owners undertake formal credit investigation before granting credit, usually merchandising and manufacturing businesses; 51.5% of small business owners never undertake formal credit investigation before granting credit whereas, 20.4% and 15.8% of the owners rarely and sometimes undertake formal credit investigation respectively. Finally, 12.3% of them often conduct formal credit investigation and 15.8% of small business owners rarely and sometimes carried out formal credit investigation and none of the respondent always performed formal credit investigation. This implies that, the majority of small business owners never undertake formal credit investigations before offering credit for customers (table 4.6).

Table 4.7: Procedure followed by small business owners who sometimes offer credit

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Checking Customer: Past records from other firms	6	15.1	15.1	15.1
Valid Past financial dealings	23	58.7	58.7	73.8
Bank references	3	7.0	7.0	80.8
Others	7	19.2	19.2	100.0
Total	39	100.0	100.0	

Source: Small business survey, March, 2018

Table 4.7 above further presents the procedure followed by owners of small businesses who sometimes undertake formal credit investigation. Accordingly, 58.8% of small business owners carried out formal credit investigation before offering credit through evaluations of past financial dealings with customers. Likewise, 19.2% of the small business owners employed other mechanisms such as evaluating customers moral qualities, characters, and collateral required. Lastly, 15.1% and 7% of the respondents used past records from other businesses and bank references respectively. This finding indicates that, more than half of small business owners who sometimes granted credit for their customers investigated past financial dealing of their customers so as to offer credit.



Source: Small business survey, March, 2018

As it can be seen from figure 4.10 above evidences existed for customers indebtedness indicated that 53.2% of the owners of small businesses were using open account; whereas, 24.3% of sample small firms were using written informal document. In the same way, 18.4% signs notes and finally, 4.1% use conditional sales contracts. From this one can infer that, most sample small business owners were using open account for their customer indebtedness which probably increases the chance of credit default.

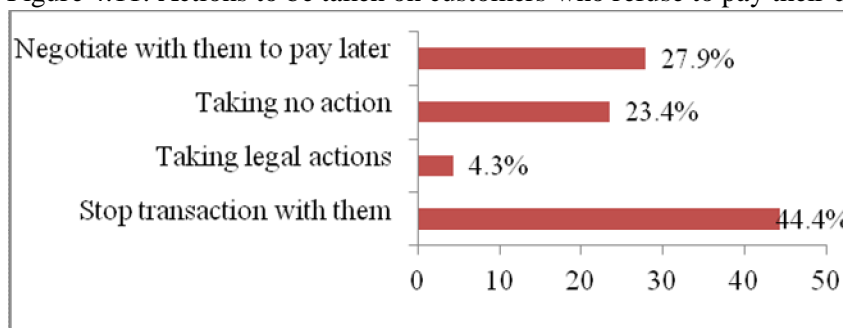
Table 4.8: Do you follow up your receivables?

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Never		0.0	0.0	0.0
Rarely	7	3	3	3
Sometimes	15	6	6	9
Often	53	21.8	21.8	30.8
Always	170	69.2	69.2	100.0
Total	245	100.0	100.0	

Source: Small business survey, March, 2018

With respect to small business owners receivables follow up, particular merchandise and manufacturing businesses 69.8% always follow up their receivables while, 21.8% often follow up their receivables. Again, 6% and 3% follow their receivables sometimes and rarely respectively. Lastly, none of the sample small business owners never follow up their receivables. This shows that, significant majority of small business owners have good follow up of their receivables (table 4.8).

Figure 4.11: Actions to be taken on customers who refuse to pay their debt



Source: Small business survey, March, 2018

Figure 4.11 above presents actions to be taken by small business owners on customers who refuse to pay their debt. Accordingly, 44.4% replied that stopping transaction with their customer when they refused to pay their debt. Likewise, 27.9% of small business owners negotiated with their customers for the payment of debt whenever the customers have the money to pay. Moreover, 23.4% of small business owners didn't

take any action on their customers. Finally, only 4.3% of the respondents did take legal actions on their customers who refuse to pay their debt. This implies that, the majority of small business owners stopped transaction with customers when they fail to pay their obligation.

**Payables Management Practices**

Table 4.9: Do you purchase goods on accounts?

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Never	26	7.6	7.6	7.6
Sometimes	191	55.5	55.5	63.1
Valid Often	87	25.1	25.1	88.2
Always	41	11.8	11.8	100.0
Total	345	100.0	100.0	

Source: Small business survey, March, 2018

Table 4.9 above presents the small business owners purchasing habit of goods on account. As a result, 55.5% of small business owners sometimes purchased goods on account; whereas, 25.1% of the respondents often purchased goods on account. Similarly, 11.8% of the small business owners always purchased goods on credit. And lastly, 7.6% of them never purchased goods on account. This result shows that, the majority of small business owners sometimes purchased goods on account.

Table 4.10: Do you negotiate with your creditors to extend the credit period

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Never	160	46.5	46.5	46.5
Rarely	110	31.8	31.8	78.3
Valid Sometimes	47	13.5	13.5	91.8
Often	28	8.2	8.2	100.0
Always	0.0	0.0	0.0	
Total	345	100.0	100.0	

Source: Small business survey, March, 2018

With respect to whether or not negotiations are made with customers to extend credit period, 46.5% of the owners of sample small business owners in the study area never negotiate with their creditors to extend credit period. In the same way, 31.8% of them rarely agreed with their creditors to lengthen their credit duration. Again, 13.5% and 8.2% small business owners of the study area negotiated with their creditors to extend their credit period respectively. Finally, none of the respondents always negotiated with their creditors to make longer the credit period. This finding implies that, most owners of sample small businesses of the study area never negotiated with their creditors to extend their credit period (table 4.10 shows details).

**Inventory Management Practices**

Table 4.11: Do you maintain records of your goods and materials?

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Never	14	5.6	5.6	5.6
Rarely	126	51.3	51.3	56.9
Sometimes	62	25.5	25.5	82.4
Often	40	16.3	16.3	98.7
Always	3	1.3	1.3	100.0
Total	245	100.0	100.0	

Source: Small business survey, March, 2018

Table 4.11 above presents the record keeping practices of small business owners for their goods and materials (particular to merchandising and manufacturing businesses). Accordingly, the survey results indicated that 51.3% of the small business owners rarely maintain records of their materials and goods as 25.5% sometimes carried out records of their materials and goods. Likewise, 16.3% of small business owners often maintained records for their materials and goods; whereas, 5.6% of them never keep records for their materials and goods. Finally, only 1.3% of small business owners maintained records for their materials and goods. This implies that, more than half of small business owners rarely maintained proper records for their materials and goods.

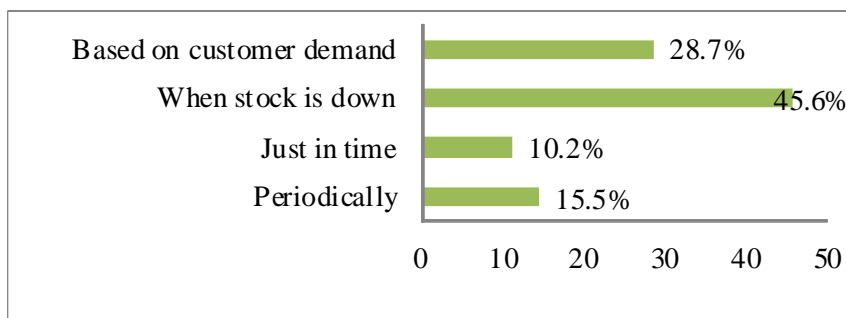
Table 4.12: Do you have regular stock taken?

Response	Frequency	Percent
Yes	79	32.3
No	166	67.7
Total	245	100.0

Source: Small business survey, March, 2018

As it can be seen from table 4.12 above, particular to merchandising and manufacturing businesses 67.7% of small business owners didn't regularly take their inventory; whereas, 32.3% of them did regularly take their stock. It implies that, significant majority of small business owners didn't have regular stock taken.

Figure 12: How do you decided for your restock



Source: Small business survey, March, 2018

Figure 12 above shows how small business owners decided to replace their inventories typically merchandising and manufacturing businesses. Accordingly, 45.6% of the respondents replaced their stock when the stock is down; where as 28.7% of the owners replaced their inventory based on customer demand. Similarly, 15.5% of the sample small business owners in the study area replaced their goods and

materials periodically. Lastly, 10.2% of small business firms replaced their stock just óin ótime when inventories are required for productions. This shows that, the majority of small business owners replaced their goods and materials when stocks became down.

### **Interview Results**

As per the management response, the most pressing problems currently facing sample small businesses owners of the study area, particular to working capital management were lack short term training, lack of maintaining book of accounts by owners, lack of follow up the financial records of the owners, access to finance, and adequate government supports.

### **5. CONCLUSIONS**

The finding revealed that, the majority of small business owners didn't maintain cash budget, hence it is very difficult to made appropriate financial decisions. As to how the small business owners invested their surplus cash which was generated from daily operations, the result shows, the majorities of them keep their proceeds in bank account rather than investing in various long-term investments. The fact that most small business owners of the study area didn't undertake credit sales is mainly because of shortage of working capital and fear of default risks. Moreover, the majority of owners of small business firms never made formal credit investigations before offering credit for customer mainly due to lack of knowledge and awareness.

Referring to record keeping practices of small business owners for their goods and materials the result shows that more than half of them hardly ever keep proper records for their materials and goods mainly because of and carelessness and incapability to maintaining professional accountants. Contrary to theories of inventory management that postulates, firms require to maintain proper records for inventories of goods and materials in order to provide a business with information need to take markdowns by identifying slow-selling merchandise most small business owners didn't have regular stock taken. It is convincing that, in order to minimize the unnecessary blocking of the capital in the material stock and to avoid the interruption in the smooth production process, certain levels of stocks are to be determined ahead. However, the survey results suggest that, the majority of small business owners made their restock only when stock is down. So, this lack of a good inventory system confronts inventory managements that accelerate the failure rates for small business firms. Finally, results from the interviews made with management of Trade and Industry Office of South West Shoa Zone indicated that, sample small business owners were not properly managing their working capital.

### **6. RECOMMENDATIONS**

Since, most small business owners didn't prepare cash budget, it is very difficult to plan future expenditure and to make sound financial decisions. So, it is advisable for small business owners to maintain cash budget. It is also advisable for owners of small businesses to undertake bank reconciliation in order to avoid irregularities of financial records. Likewise, small business owners urge to formulate a convincing credit policy for their customers. Since, small business owners scarcely made proper records for their materials and goods and unable to maintain a re-order level policy for their stock there is a need to create a re-order level policy for their businesses that will make an enabling condition for businesses to identify the best sellers of their wanted stocks in the market at a peculiar period. In addition, such policy can also avoid a price changes and pirated products. Furthermore, there is a need for short term training, workshops, and seminar in order to fill the skill and knowledge gap of small business owners. So, it is advisable that, all stakeholders such government, non-government units, and academic institutions need to take parts to tackle the problems. Finally, it could be attractive to study best working capital management practices of leading business enterprises.

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