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Why some small businesses ignore austere working capital management routines

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Abstract

Purpose – The purpose of this paper is to investigate factors explaining take-up rate of working capital management routines in small-scale businesses.

Design/methodology/approach – A cross-sectional survey research was employed using a sample of 450 small-scale businesses in the central business district of Kampala, Uganda. Common working capital management routines and activity rates were analyzed using descriptive statistics. While binary logistic regression analysis was conducted to discriminate between businesses that engage in working capital management frequently and those that do so less frequently.

Findings – The results show that on average, the most frequently performed routines relate to safeguarding cash and inventory, and credit risk assessment. Payment management routines are least performed. Second, business size, perceived usefulness and attitude explain high take-up rate of working capital management routines in small-scale businesses. Business age, level of education and financial management training are inconsequential in determining the likelihood to undertake working capital management frequently.

Research limitations/implications – Paucity of studies world over on the input perspective of working capital management limited comparison of the findings with previous research. Future studies should be conducted to confirm the results.

Practical implications – The study findings imply that policy makers should develop work-based training programs that take into account the business size effect.

Originality/value – This study contributes to existing working capital management literature by explaining activity rate in a developing country perspective.

Keywords Small business, Attitude, Working capital management, Perceived usefulness, Firm factors

Paper type Research paper

1. Introduction

In this paper, we extend the prime working capital management studies to small-scale businesses in Uganda, a developing country. Specifically, we investigate working capital management routines undertaken and factors explaining activity rate. Small-scale businesses are seen as the engines that drive economies across nations, through their contribution in terms of job creation and poverty reduction (Abor and

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Quartey, 2010; Agyei-Mensah, 2011; Halabi *et al.*, 2010). However, despite their impact, such businesses continue to face challenges that prevent them from realizing their full potential. For instance, Aggarwal *et al.* (2012) report that Africa accounts for only 30 percent survival rate for business start-ups in the first year compared to 71.3 percent survival rates in the UK and 69 percent in the USA. The Kenya National Bureau of Statistics (2007) as cited by Nyabwanga *et al.* (2012) indicates that small-scale businesses in Kenya exhibit high-birth rates and high-death rates with 40 percent of the start-ups failing by year two and at least 60 percent closing their doors by year four. In Uganda, the Global Entrepreneurship Monitor studies indicate that on average, 27 percent of the entrepreneurs shut down their businesses within the first 12 months of operation (Briggs, 2009; Namatovu *et al.*, 2010). This trend has been frequently linked to poor working capital management (Briggs, 2009; Bowen *et al.*, 2009; Ekanem, 2010, Kehinde, 2011).

According to Atrill (2006) and Gitman (2009), businesses can achieve effective and efficient working capital management through budgeting activities such as cash planning, inventory planning and credit planning, as well as credit risk assessment, keeping financial records and conducting reconciliations. Take-up of such routines enable businesses to avoid the risk of inability to meet due short-term obligations on one hand and prevent excessive investment in short-term assets on the other hand (Howorth and Westhead, 2003). Given, their limited access to capital markets, small-scale businesses tend to rely on short-term funds, and thus efficient management of working capital is crucial for the survival and growth of small-scale businesses (Ekanem, 2010; Padachi, 2006). However, there is insufficient knowledge on take-up of working capital management routines in small-scale businesses.

The focal point of extant research is the relationship between working capital management and profitability of firms (e.g. Oladipupo and Okafor, 2013; Tauringana and Afrira, 2013). These studies focus on financial ratio analysis, and consequently assume well-established reporting frameworks and measureable outputs. As such, the approach excludes most small-scale businesses especially in developing countries that do not meticulously keep financial records. Second, the studies assume causes of the outcomes in financial reports and therefore, specific actions and causes have mostly been neglected in studies related to working capital management.

Considering the fact that management in most SMEs revolves around the owner-manager, it is expected that the factors that may explain working capital management incidence in such businesses reside in the individual nuances. This is in line with behavior theorists like Ajzen (1991) and Davis (1986) who allude that the actions involved in managing working capital are associated with the individual's behavior beliefs. Nonetheless, our empirical knowledge on the relationship between individual characteristics and working capital management is limited, given that much of the observed explanations are based on financial ratio analyses. This study was guided by the following research objectives:

(1) to examine the most frequently performed working capital management routines by small-scale businesses; and

(2) to explain working capital management activity rate in small-scale business.

We expect that when the actions and causes are understood, it is easier to propose solutions and policies to improve working capital management in small-scale businesses. This study contributes to extant literature in a number of ways. First, the

study reports the findings of working capital management routines undertaken and factors explaining activity rate. Past studies that have attempted to investigate working capital management routines have only documented the activity rate paying less attention to the explanatory factors (Agyei-Mensah, 2011; Nguyen, 2001). Moreover, the routines studied are limited to "review" of working capital management routines. Exploring broader management activities and understanding the factors that explain take-up rate is important for practitioners and policy makers to focus on for interventions. Second, to the best of our knowledge, there is no existing research that has investigated why some businesses take-up working capital management activities more frequently than others. This kind of investigation is particularly fascinating given that when we discriminate businesses based on activity rate, we are able to provide learning experiences for businesses that are performing below expectation. It is evident that there is need for more studies on success factors that keep certain businesses at the top.

The rest of the paper is structured as follows. We begin with an overview of small-scale businesses in Uganda. The next section covers past studies on working capital management. This is followed by methods employed in collecting and analyzing the data. Results and discussion are then presented. In the last section, conclusions and implications for academics, practitioners and policy makers are presented.

2. Small-scale businesses in Uganda

Small-scale businesses in Uganda are defined basing on parameters such as annual turnover, number of employees and value of fixed assets (Okello-Obura *et al.*, 2008). However, the number of employees is the most preferred criterion given that most small-scale businesses lack adequate financial records to facilitate the computation of actual annual turnover. In addition, owner-managers are more willing to disclose employee numbers rather than financial records. In this study, we adopt the small-scale business definition by the Uganda Ministry of Finance, Planning and Economic Development (MoFPED) which defines a small-scale business as the kind that employs between five and f50 staff. Further, policies on the SME sector in Uganda are formulated basing on the MoFPED definition.

The business model in Uganda is predominantly small-scale business (Ernst and Young, 2011; UBOS, 2012) and the informal sector. Most of such businesses are found in metal fabrication, furniture-making, food processing, motorcar garages, wholesale and retail trade, restaurants and transport (Namatovu *et al.*, 2010), with the biggest proportion (40 percent) being the trade sector (UBOS, 2012). Such businesses are responsible for; about 90 percent of total non-farm private sector employment, constitute approximately 20 percent of the national GDP, contribute over 20 percent of incomes of the labor force, and have great potential for reducing poverty levels (Ernst and Young, 2011). The importance of the SME sector to the Ugandan economy is not unique and is consistent with the trends observed by Abor and Quartey (2010), Agyei-Mensah (2011) and Hallberg (2000) who argue that small businesses have important contributions to make at micro and macro levels of economic and social development.

The factors in the small-scale business operating environment that have a bearing on the management of working capital in Uganda are complex but essentially similar over time. Orobia *et al.* (2013) cite that, the task environment is quality deficient and institutional conditions hardly demand for austere working capital management practices. For instance, the current state of technological advancement in small-scale businesses is somewhat rudimentary. There are very few computers and small-scale

business operators do not consider it a priority or important to acquaint themselves with the state of the art technology. As such, operations in most small-scale businesses are not automated. Coincidentally, the nature of small-scale business customers and their suppliers are not sufficiently sophisticated to demand or expect accounting documentation such as invoices, statements and the like. The competitors are no better positioned. Furthermore, the general environment is constituted of a weak economic and legal environment in which private contracts are rarely documented and requirements for audited accounts are not enforced; the accounting norms and expectations that make up the cultural environment are underdeveloped; the role of the government in providing direction is capacity constrained. Similarly, institutions such as the accountants associations and the education system that would be useful in information management are yet to make an impressionable impact. Generally, there is a very slow structural transformation into a modern economy.

3. Working capital management in SMEs in developing countries

SMEs in developing countries serve as a useful bridge between the informal economy of family enterprises and the formalized corporate sector (Padachi *et al.*, 2012). Consequently, most policy makers consider the health of the SME sector to be highly important to an economy. However, despite the increased attention paid to the SME sector, there is comparatively little knowledge about working capital management routines and practices.

Padachi *et al.* (2012) investigated working capital management practices among Mauritian small firms. Their study established that on a scale ranging from "never" to "always," small firms rarely review bad and doubtful debt levels. The regular activities include review of customer discount policy, credit risk to customers and financing of working capital. The results further show that small firms often review stock levels and re-order levels. More still, importance is placed on cash flow monitoring. Similarly, Nyabwanga *et al.* (2012) examined the effect of working capital management on financial performance of small-scale enterprises in Kisii, Kenya. The study found that on average, the routines that are ignored include preparation of cash budgets and setting up guidelines for credit customers. Determination of target cash balances is rarely done, while review levels of receivables and bad debts is occasionally done. The results further show that the regular routines relate to preparation of inventory budgets and reviewing inventory levels. This seems to suggest that importance is placed on inventory management. However, the study concludes that small-scale enterprises are not good at managing their working capital since they do not seem to embrace and implement the routines in their businesses.

Agyei-Mensah (2011) examined working capital management practices of small firms in Ghana and found that on average cash budgeting was the most frequently undertaken routine. With regard to accounts receivable's management, the results show that small firms never review debtors credit period, debtors credit policy, bad and doubtful debt levels, and customer risk standing. On inventory management, most small firms never review stock turnover, stock level, stock re-order level and they never use the economic order quantity model. The study concluded that working capital management in small firms is poor. Likewise, Masoud and Mbega (2008) conducted an exploratory study of SMEs' working capital management practices in Dar es Salaam, Tanzania. The results showed that preparation of cash and inventory budgets, and investing cash surpluses in profitable ventures are never undertaken by most SMEs. The rare routines included setting up credit policy for customers and reviewing

inventory levels. The results further showed that most SMEs review their receivable levels and irrecoverable debts based on monthly period. Nonetheless, the study concludes that SMEs exhibit poor working capital management.

From the foregoing discussion, it is evident that past studies have focussed on use of budgets and review aspects of working capital management routines at the expense of other management activities such as monitoring and control. Working capital management is beyond reviewing credit policy, working capital level and use of budgets. We know little about safeguarding assets, conducting reconciliations and credit risk assessment. Moreover, the results are mixed and inconclusive. Whereas the extant literature informs us about the state the businesses are in, the approach adopted leaves a number of questions unanswered. For instance, if majority of the SMEs never use or review the mentioned routines, what do they do? Why do some SMEs undertake working capital management routines frequently than others? Munene *et al.* (2005) and Sejjaaka (2005), observe that answering the "why" question provides a somewhat deeper understanding of human behavior or actions. This study intends to fill the gaps identified by examining a broader range of working capital management routines and factors explaining activity rate.

4. Factors affecting working capital management incidence

Most small-scale businesses in developing countries like Uganda generally do not exhibit separation of ownership and management controls, and lack formal systems, structures and procedures (Bagire and Kyogabirwe, 2004; Briggs, 2009; Kazooba, 2006). Consequently, the factors that are likely to affect the way such businesses manage their working capital relate to firm (size, age, life cycle stage) and individual (knowledge, perceived usefulness, attitude) characteristics (Briggs, 2009; Maseko and Manyani, 2011).

Business size has been advanced to explain the adoption strategies by small-scale businesses (Padachi, 2012). Particularly, increase in volume of transactions is associated with increase in activities such as record keeping and reconciliations. Howorth and Westhead (2003), who investigated the relationship between firm size and low take-up of working capital management routines in the UK small firms, support this. Their findings revealed a significant relationship, implying that as firms grow, the level of complexity of operations also increases, thus explaining the high take-up of working capital management routines in larger businesses. In a similar case, Padachi (2012) discovered that the take-up of accounting systems depended on the size of the business. Earlier studies by Filbeck and Lee (2000) and Perren *et al.* (1999) also provide evidence on the impact of business size by demonstrating the transition from informal system to formal one as the number of transactions increases. The studies corroborate the relationship between business size and take-up of activities. Based on these insights, we expect that undertaking the numerous working capital management routines in small businesses will vary according to the business size.

From the business life cycle perspective, it is widely accepted that businesses go through infant, growth, expansion, mature and decline stages. Each stage has its own unique characteristics and the focus of the business activities will reflect the current point within the life cycle. In the early stage, business activities, transactions and revenues are expected to be low. This implies that, businesses in the infant stage are expected to have least working capital management routines (Howorth and Westhead, 2003; Padachi, 2012). However, as the businesses advance in these stages, business activities and revenues tend to increase and therefore, management practices equally get advanced.

According to Davis (1989), people take up certain activities to the extent that such engagement will enhance their job performance. Likewise, the expectancy theory (Vroom, 1964) argues that the choice to initiate a particular course of action is influenced by the expectation that an action will lead to valued outcomes. The theory suggests that individuals choose actions that will maximize desirable outcomes and minimize undesirable outcomes by evaluating the expectancy and valence of those outcomes. Some of the desired outcomes (usefulness) in managing working capital that have been highlighted in the finance literature include saving costs and increasing returns (Chowdhury and Amin, 2007; Deloof, 2003). Therefore, we expect that take-up of activities will vary according to perceived benefits derived out of such engagement.

Further, in view of the central function of owner-managers, management in small businesses is to a great extent determined by the individual's attitude. Ajzen (1991) defines attitude toward a given activity as the degree to which the person evaluates the activity in a favorable or unfavorable light. The theory of reasoned action (Fishbein and Ajzen, 1975) posits that, people are rational decision makers, implying that they consciously think through the reasons for their actions, take into account the possible implications of such actions and act according to such reasoning. Therefore, it is expected that when owner-managers evaluate planning, monitoring and control of working capital positively, they are likely to take up the related activities accordingly.

Overall, although attempts have been made to examine the influence of firm characteristics on working capital management incidence in small businesses, we know little about the Ugandan context. In addition, the impact of perceived usefulness and attitude have not been explored in past working capital management studies. This study therefore contributes to the finance literature by filling the gaps identified.

5. Methodology

This study was conducted using a questionnaire survey. The sample selected for the study was taken from the UBOS (2007) list of 10,029 small-scale businesses employing between 5 and 50 workers in the trade, hotel and restaurants and manufacturing sectors located in Kampala (the capital city of Uganda). The region was chosen because it is the commercial heartland where most business activities take place. While, a multi-sector sample was preferred in order to control for sector specifics that could influence the extent of working capital management in small-scale businesses.

The sample was selected using systematic sampling method. Of the 450 questionnaires administered, 360 usable questionnaires were obtained, achieving a response rate of 80 percent. The high-response rate is attributed to the fact that a researcher-administered questionnaire approach was employed in data collection. This approach was chosen to enable a face-to-face interaction between the researcher and the respondents. Moreover, lack of panel data and limited availability and efficiency of postal and communication services in Uganda could not allow questionnaires to be mailed, faxed or couriered to respondents without causing selection bias. Procedural and statistical remedies recommended by Podsakoff *et al.* (2003) were employed to control for common methods bias, and the results revealed that the data analyzed is free from bias.

Tables AI and AII show the sample characteristics by firm and individuals that responded to the survey. Respondents were either owner-managers or managers. Whereas the unit of analysis is the business entity, it is worth noting that, the pervasive influence of founders on their firms, and their dominance in making decisions, enables the study to assume a high degree of equivalence between the individual and the

organizational levels of analysis (Dickson and Weaver, 1997). Furthermore, to avoid the possible data variance created by differences in the views of owner-managers in a start-up situation vs the situation of those who actually have been operating for some years, only businesses which were at least 12 months old participated in this study.

Measures working capital management is measured using frequency of undertaking the various activities in planning, monitoring and controlling working capital (Chau *et al.*, 2004; Kidwell and Brinberg, 2003; Hilgert *et al.*, 2003; Poutziouris *et al.*, 2006; Perry and Morris, 2005). The items generated were anchored on a six-point Likert scale ranging from 1 = "never" to 6 = "always" (α coefficient 0.81). Perceived usefulness is measured by examining owner-managers' perception on the degree to which they believed that undertaking working capital management routines would lead to desired outcomes (Cheong and Park, 2005; Chiu *et al.*, 2005; Davis, 1989; Venkatesh and Morris, 2000). The items generated were anchored on a six-point Likert scale ranging from 1 = strongly disagree to 6 = strongly agree (α coefficient 0.68).

Attitude is measured by examining individual's evaluation of working capital management routines in a favorable/unfavorable light (Ing-Long and Jian-Liang, 2005; May, 2005; Lu *et al.*, 2003; Ramayah *et al.*, 2005; Shih and Fang, 2004; Teo and Pok, 2003; Yulihasri, 2004). The items generated were anchored on a six-point Likert scale ranging from 1 = strongly disagree to 6 = strongly agree (α coefficient 0.69).

Level of education is measured by the Ugandan education system ranging from primary school education to university level. Respondents were asked to indicate their highest level of education. Financial management training is represented by a dichotomous variable, which takes the value of 1 if the respondent has ever received financial management training and 0 if the respondent has never received financial management training.

Business size is measured by number of employees; respondents were asked to indicate the number of workers employed. Business age is measured using the number of years the business has been operational; respondents were asked to state the age of the business in absolute figures.

5.1 Data analysis

Descriptive statistics analysis was used to describe the demographic characteristics of the study participants, working capital management routines and activity rate. While, binary logistic regression analysis was conducted to discriminate between businesses that engage in working capital management frequently and those that do so less frequently. The choice of the regression analysis was because of its power to express the outcome variable as a logit variable through log-linear transformation, which represents a natural log of the odds of the outcome variable occurring or not. In computing the binary logistic regression analysis the study variables were coded using the recode function in SPSS: working capital management (1 = "more frequently," 0 = "less frequently"), business size (1 = "very small," 2 = "fairly small," 3 = "small"), business age (1 = "infant," 2 = "growth," 3 = "mature"), level of education (1 = "primary or less," 2 = "secondary," 3 = "university"), perceived usefulness (1 = "low," 2 = "high"), and attitude (1 = "positive," 2 = "negative").

6. Empirical results

6.1 Descriptive statistical analysis

Table I shows that on average, Ugandan small-scale businesses often undertake the various routines involved in managing working capital. Keeping daily collections in

How often do you …	1	2	3	4	5	6	Total %
Inventory management							
Use an adequate storage facility	6.1	1.4	1.4	2.8	18.6	69.7	100
Limit access to the storage facility	11.1	1.9	1.1	3.3	25.8	56.7	100
Receivables' management							
Check stock condition	2.2	0.6	0.6	7.8	39.4	49.4	100
Check customers' ability to pay before extending credit	5.3	0.6	0.6	7.8	39.4	49.4	100
Clearly communicate the credit terms before extending credit	6.1	0.8	2.2	6.9	35	48.9	100
Review debtors level	5.3	1.7	1.7	11.1	45.8	34.4	100
Cash management							
Use a safe for keeping money collections as they occur	3.6	0.8	0.3	1.9	16.4	76.9	100
Limit access to the cash safe	3.3	1.1	0.3	2.2	22.2	70.8	100
Check the money balance in the records against the money in the safe at the end of the day	7.8	1.9	0.8	8.3	37.5	43.6	100
Payables' management							
Write down details of debts whenever they occur	13.9	3.1	3.3	6.7	26.4	46.7	100
Make plans on how to clear debts	14.7	3.3	1.1	11.1	36.4	33.3	100
Pay debts on time	13.6	2.5	2.8	17.5	28.9	34.7	100
Review debt levels	13.3	3.1	1.7	14.2	41.9	25.8	100

Notes: 1 – "never"; 2 – "rarely"; 3 – "somewhat rarely"; 4 – "somewhat often"; 5 – "often"; 6 – "always"

Table I. Working capital management routines and activity rate (in percent)

safes (77 percent) and limiting access to the cash safe (71 percent) are the most frequently undertaken routines by majority of the respondents. This suggests that importance is placed on safeguarding cash. This is followed by safeguarding inventory – where 70 percent of the respondents often make use of an adequate storage facility, while 57 percent limit access to the storage facility. Further, the findings show that majority of the respondents assess credit risk, and communicate the credit terms before extending credit to their customers. More still, the results demonstrate that the least performed routines relate to payables management.

6.2 Logistic binary regression analysis

The results presented in Table II show that the Hosmer-Lemeshow goodness of fit statistic for the logistic regression model is insignificant ($\chi^2 = 6.699$; $p > 0.05$), indicating that the model fitted the data well.

Table II reveals that business size has an influence on working capital management frequency ($p < 0.01$). This indicates that the larger the business size, the greater the likelihood that these businesses will employ working capital management routines more frequently, since the business volume and activities will have increased. Therefore, it can be stated that business size is positively related to working capital management frequency. Second, the results show that business age is not a significantly influential variable ($p > 0.05$). This implies that the influence of business age on working capital management frequency is inconsequential in the context of Uganda.

Third, Table II indicates that the level of education ($p > 0.05$) and financial management training ($p > 0.05$) do not determine the frequency of undertaking working capital management routines in small-scale businesses. A deeper analysis of the results (Table AII) reveals that majority of the respondents (23.3 percent) have attained higher

Variables	Coeff.	SE	Wald (β)	Sig.	Ex (β)
Business size	0.165	0.032	25.971**	0.000	1.180
Business age	−0.012	0.047	0.061	0.805	0.989
Level of education	−0.011	0.079	0.018	0.892	0.989
Fin Mgt training	−0.243	0.258	0.890	0.346	0.784
Perceived usefulness	0.679	0.284	5.722*	0.017	1.971
Attitude	0.563	0.266	4.481*	0.034	1.756
R^2 Cox & Snell			0.208		
R^2 Nagelkerke			0.278		
χ^2 Hosmer and Lemeshow test					
χ statistic			6.699		
Sig.			0.569		
Global percent of correct prediction			68.1		

Note: *$p < 0.05$; **$p < 0.001$

Table II.
Binary logistic regression

secondary school education (A-Level), followed by 21.1 percent with bachelors degree (University level). Further, 57.8 percent have received financial management training. Ordinarily, one would expect education level and financial management training to have a significant influence. Fourth, perceived usefulness and owner-manager's attitude were found to be significantly related to working capital management frequency ($p < 0.01$). This indicates that the more the owner-manager perceives working capital management routines as useful, and has positive attitude, the greater the likelihood that he/she will undertake the routines more frequently, since he/she will have understood the derived benefits and attached importance to the various routines.

Regarding other indicators of the model, the global explanatory value of the model is good ($\chi^2 = 84.138$; $p < 0.000$; df = 6; 68 percent of observations correctly classified) and that the chosen set of independent variables makes an adequate discrimination between those businesses that undertake working capital management routines more frequently and those that do not do so. Likewise, the R^2 of Cox and Snell (21 percent) and Nagelkerke's R^2 (28 percent) indicate that the logistic regression model explains a fairly limited percentage of the likelihood of undertaking working capital management routines more frequently. This is due to the fact that the likelihood of undertaking working capital management routines depends upon other factors, as well as those considered in this study.

7. Discussion of results

This study established that on average, the most frequently performed routines relate to safeguarding cash and inventory, and credit risk assessment, respectively. On face value, the findings suggest that small-scale businesses actually do manage their working capital. However, such results may be misleading if the developing country context is not taken into account. For example, Orobia *et al.* (2013) found that majority of small-scale businesses in Uganda manage their working capital in a rather simple way and not according to the book or best practice. Whereby, they employ sketchy written and mental records, assess credit risk based on personal relations, have varied credit terms, make use of improvised safes, assume re-order levels, conduct regular physical checks and "balance" books among others. These actions can be performed easily and frequently, it is no wonder the routines were scored highly (Table I).

This study also provides empirical evidence indicating that such factors as business age, education level and financial management training are inconsequential in determining the likelihood of small-scale businesses to undertake working capital management routines frequently or not. The result on business age is not surprising, because in Uganda, there are circumstances where business transactions or volumes remain small even at a mature stage of the life cycle. For instance, most businesses are necessity based that is to say they are set up to cater for basic needs such as food, clothing, medical, education and shelter (Namatovu *et al.*, 2010; Rosa *et al.*, 2006; Walter *et al.*, 2005). As a result, the business capital is often eroded and the size of the business may remain the same or even grow smaller with time. A plausible explanation for the finding on the role of education level is the fact that the current education system (primary school to university) is not action oriented. As a result, the knowledge acquired in schools is considered to a great extent theoretic and less relevant for small-scale businesses. This means that a university graduate will find it irrelevant to translate his/her knowledge on sophisticated techniques in managing working capital to a small-scale business context. Anecdotal evidence indicates that most financial management training programs have equally been developed basing on large firm practices at the expense of small-scale business specifics. In this regard, it is not sufficient to say that the higher the level of education or financial management training, the greater the likelihood that the individual will undertake working capital management routines, more so frequently.

On the other hand, such factors as business size, perceived usefulness and attitude of owner-managers explain why some small-scale businesses undertake working capital management routines more frequently than others. The impact of business size can be ascribed to the fact that a very small business is associated with very minimal record keeping and need to review inventory and debtors' levels. Such businesses have a limited customer base and tend to operate on cash basis. Consequently, the issue of debtor screening and management is likely to be a fallacy. In addition, the issue of banking daily cash receipts is non-existent. Because of the minimal routines, there is room to downplay frequent application. However, as the business size grows, the need for such activities becomes relevant. The study finding is in line with Howorth and Westhead (2003)'s study, which concluded that larger businesses are positively associated with high take-up of working capital management routines.

Assessing credit worthiness, detailed record keeping and monitoring of working capital level is associated with knowledge on credit terms, financial records, reconciliations and inventory control. This is in line with Hogarth and Hilgert (2002)'s study which established that people who had more knowledge on cash flow management, credit management, saving and investment tended to score better in terms of financial practices. Such households were more likely to follow sound financial management behaviors. In the same vein, Kidwell and Turrisi (2004) established that 45.6 percent of students with better financial knowledge keep detailed financial records, compared to only 29 percent of the students with inferior financial knowledge. This means that, when owner-managers possess basic financial knowledge, this knowledge improves the way they plan, monitor and control inventory, cash, receivables and payables. This is true because, they are able to understand not only what things happen but how and why. Put simply, this understanding enables them to evaluate the usefulness of managing working capital and attach importance to the various activities involved therein.

A deeper analysis revealed that 80 percent of the respondents had prior experience before starting their own businesses. This suggests that in Uganda, owner-managers of

small-scale businesses derive working capital management knowledge and skills through past experience as opposed to the formal education system. Once people are exposed to certain ways of doing things, they gain the basic knowledge and confidence and can identify the actions that lead to the desired outcomes. This in turn, shapes their attitude and translates into consequent actions. Nonetheless, it should be noted that whereas an individual may possess the relevant knowledge on various routines involved in managing working capital and understands the usefulness, the ultimate choice of action will depend on what he/she feels is important. Recall that in the absence of formal systems, structures and procedures, decision-making process and actions depend on the individual's attitude. Therefore, the more positive the owner-manager's attitude is toward working capital management routines, the greater the likelihood that he/she will undertake working capital management routines more frequently. The results provide support to previous behavioral studies, which assert that people's actions depend on their attitude (Lu *et al.*, 2003; Ramayah *et al.*, 2005; Rhodes and Courneya, 2003; Shih and Fang, 2004).

8. Conclusion

From the practical perspective, this study demonstrates that when owner-managers perceive take up of working capital management routines as usefulness and important, activity rate is likely to increase. However, this is possible if they possess the basic knowledge and skills required. The implication therefore is the need for action-based training and capacity building programs. Poor working capital management affects growth and survival rates of businesses, and the overall economic development of a country. Thus, policy makers need to design work-based (action-oriented) training programs that are relevant for small-scale businesses. Typically, "one size" policy does not fit all. Second, considering the development International Financial Reporting Standards (IFRS) for SMEs, the current standard assumes a well-established reporting framework and systems. In addition, it emphasizes the quantitative aspects and assumes causes of the outcomes. By their nature and task environment, most small-scale businesses in the third world setting are informal and do not keep financial records meticulously, implying that the IFRS may not be applicable to such businesses. This study provides empirical evidence on the behavior perspective of working capital management, suggesting that to have such businesses on board, accounting bodies should consider behavioral perspective in the continuing development of the IFRS for SMEs. Moreover, the new wave in the accounting and finance literature indicates that financial reports cannot tell it all, and therefore may not been able to provide organizations with prescriptions of how to generate and sustain efficient and effective financial performance.

Several limitations to this study provide guidance for future research. First, paucity of studies on the supply-side perspective of working capital management deprived the study of the opportunity to cross-validate the present study findings. Future studies should be conducted to confirm the results. Second, the study is cross-sectional. Given that the views held by individuals may change over the years, there is need for a longitudinal study. Third, although a survey questionnaire was used to collect data through a personal approach, follow up interviews, which would have informed us of the reasons why the respondents held certain views were not undertaken. Therefore, the need for a qualitative approach is evident. Finally, the study focussed on firm factors, perceived usefulness and attitude, providing an overall prediction of 28 percent (Nagelkerke R^2). This implies that the remaining 72 percent of the variance in working

capital management may be explained by other factors that were not considered in this study. Future studies should consider other individual attributes such as previous experience, psychological capital, self-identity and personal initiative. Alternatively, future research may wish to replicate in different country contexts to test the robustness of the model.

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Appendix

Variables	Frequency	%
Business type		
Trade	144	40
Hotels and restaurants	112	31.1
Manufacturing	104	28.9
Business age		
Infant (1-5)	139	38.6
Growth (6-10)	109	30.3
Mature (11+)	112	31.1
Business size		
Very small (5-10 employees)	121	33.6
Fairly small (11-20 employees)	140	38.9
Small (21-50 employees)	99	27.5

Table AI. Distribution by firm characteristics

Variables	Freq.	%
Gender		
Female	127	35
Male	233	65
Age of respondents		
18-28 years	105	29.2
29-39 years	184	51.1
40-50 years	60	16.7
above 50 years	11	3.1
Highest education level		
Primary level or less	27	7.5
O' Level	62	17.2
A' Level	84	23.3
Vocational school (certificate)	47	13.1
Diploma	57	15.8
Bachelor's degree	76	21.1
Master's degree	7	1.9
Financial management training		
Yes	208	57.8
No	152	42.2
Past experience		
Yes	291	80.8
No	69	19.2

Table AII.
Distribution by demographics

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