

Article Title Page

How Do Small Business Owners Manage Working Capital in An Emerging Economy? A Qualitative Inquiry

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Structured Abstract:

Purpose: The purpose of this study was to examine the actions owner-managers of small businesses undertake in managing working capital.

Design/methodology/approach – The study adopted an exploratory research design. The point of saturation was achieved after ten owner-managers were interviewed. Data were analyzed using content analysis technique with the aid of NVivo software. Verbatim texts were used to explain the emergent themes.

Findings - The findings indicate that in the absence of systems, structures and procedures, small business owner-managers intuitively plan, monitor and control their working capital. The activities undertaken include; reliance on memory and oral agreements, informal planning, assuming inventory limits, unconventional record keeping, cash flow based information management and giving credit to close associates.

Research limitations - A more detailed investigation of the steps in the action sequence may advance our understanding of the process. Future studies need to test the effect of personal characteristics on working capital management process.

Practical implications – Owner-managers of small businesses do not require the same degree of sophistication employed in planning, monitoring and controlling working capital. They



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require soft skills. Therefore, academicians, practitioners and policy makers need to emphasize knowledge management and cash accounting.

Originality/value – This study examines the process perspective of working capital management, an aspect that has not been adequately highlighted in previous studies.

Keywords Working capital management, Small businesses, Qualitative research

Paper type Research paper

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Running Heads: Working capital management in small businesses

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How Do Small Business Owners Manage Working Capital in an Emerging Economy? A Qualitative Inquiry

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1. Introduction

Small businesses greatly contribute to the economic development of a country (Abor & Quartey, 2010; Halabi *et al.*, 2010). Their contribution is gauged in terms of job creation, income generation and poverty reduction (Agyei-Mensah, 2011). However, despite their significance, small businesses continue to experience poor working capital management as indicated by cash problems, poor planning, high stock out costs and low debt collection rates (Deakins *et al.*, 2002; Ekanem, 2010; Kazooba, 2006), as is the case for small businesses in emerging economies such as Uganda. In the current economic climate of tighter liquidity, rising cost of capital and raw materials, sky rocketing energy costs and ever-increasing competitiveness, there is need for businesses to manage working capital effectively and efficiently (Ekanem, 2010). Working capital is what keeps a business alive and functioning. Businesses need to efficiently manage their working capital in order to avoid the “risk of inability to meet due short term obligations on one hand and preclude excessive investment in short term assets on the other hand” (Eljelly, 2004, p. 48). This study examines the actions initiated by owner-managers of small businesses in managing working capital.

The working capital management literature is replete with studies based on the use of financial reports to investigate organizations’ efficiency (see Howorth & Westhead, 2003; Lazaridis & Tryfonidis, 2006; Raheman & Nasr, 2007; Samiloglu & Demirgunes, 2008; Teruel & Solano, 2007). These studies assume well-established reporting frameworks, characterized by well-structured tasks and measurable outputs. The studies fail to take into account the behaviour

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and decision processes that determine how working capital is managed. Small businesses generally do not have separation of ownership and management controls, and lack formal systems, structures and procedures (Bagire & Kyogabirwe, 2004; Briggs, 2009; Kazooba, 2006). Consequently, management of these small businesses revolves around the owner-manager, their business skills and social context (Beaver, 2003; D'Amboise & Muldowney, 1988). How then do small business owners manage working capital? What are the actions involved in managing working capital in the absence of well-established systems and structures? Previous studies have tended to focus on the use of financial reports disregarding behaviour, which drives management processes and, as a result, our empirical knowledge of working capital management is still limited. This study attempts to develop an in-depth understanding on how owner-managers of small businesses manage working capital. As observed by Munene *et al.* (2005) and Seijaaka (2005), answering the 'how is it done?' question provides a somewhat deeper understanding of human behavior or actions. When the rationale for action is understood, it is easier to propose solutions and policies to improve working capital management.

The rest of the paper is structured as follows. The next three sections present brief reviews of small businesses in Uganda, working capital management, and the theoretical framework used in this paper. This is followed by an explanation of the methodology used in data collection and analysis, and a discussion of the findings of the study. The last section presents the conclusions of the study and implications for research and practice.

2. Small businesses in Uganda: Definition, role and environment

There is no universally accepted definition of small businesses. The definition varies across countries and industries. However, the most common measures used include number of employees, annual turnover, industry, ownership and value of fixed assets (Agyei-Mensah, 2011). Table 1 presents some of the definitions generated from a review of the literature.

<insert table 1>

This study adopts the official Uganda government definition provided by the Uganda Ministry of Finance, Planning and Economic Development (MFPED), given that it is the basis on which policies in the SME sector in the country are made. The predominant business typology in

Uganda is small businesses (Ernst & Young, 2011; MFPED, 2006). 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 labour force, and have great potential for reducing poverty levels (Ernst & Young, 2011). The results of the Global Entrepreneurship Monitor (GEM-Uganda) study indicate that most of these businesses are found in metal fabrication, furniture making, food processing, motorcar garages, trade, restaurants and transport (Namatovu *et al.*, 2010). 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 development. The factors in the small business operating environment that have a bearing on the management of working capital in Uganda are complex but essentially similar over time. The task environment is quality deficient and institutional conditions hardly demand for austere working capital management practices (Briggs, 2009; Munene, 1991). Relevant factors in the task environment include technology advancement and the nature and quality of the competition, suppliers and customers.

The technological environment embraces knowledge, tools, techniques and actions that are used to extract meaning from available information. According to Briggs (2009) and the United Nations Conference on Trade and Development (2002), the current state of technological advancement in small businesses is somewhat rudimentary. There are very few computers, and small business operators do not consider it a priority to acquaint themselves with this technology. Coincidentally, the nature of small 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 weak economic and legal frameworks. It is characterized by transactional failure, feed-back time lag understood in terms of the time it takes to learn the outcome of one's actions and personalissimo, or the situation where being connected in a personal way is the real guarantee that any transaction concluded will be honoured as expected (Briggs, 2009; Munene, 1991). In this environment, private contracts are rarely documented and requirements for audited accounts are not enforced. There is limited access to financial intermediaries, hence limited external pressure for proper financial reports. The accounting norms and expectations

that make up the cultural environment are underdeveloped and the role of government in providing direction is capacity constrained. Similarly, institutions such as the Institute of Certified Public Accountants of Uganda and trade associations that would be useful in information management are yet to make an impressionable impact.

3. Overview of working capital management

The finance literature is replete with studies on working capital management (Filbeck & Krueger, 2005; Lazaridis & Tryfonidis, 2006; Padachi, 2006; Raheman & Nasr, 2007; Teruel & Solano, 2007). Such studies seem to have a consensus on conceptualizing working capital management as the planning and control of inventory, receivables, payables and cash, in order to eliminate the risk of illiquidity and maximize profitability. Anand and Gupta (2001, p.3) affirm that “higher liquidity in a firm gives the comfort of meeting short-term liabilities but at the cost of profitability and on the other hand, too little of it may increase the profitability but at a greater risk of not meeting the short-run obligations.” Van Horne (1995) states that managing working capital involves making decisions on the investment of available cash, maintaining a certain level of inventories, managing account receivables and account payables.

As mentioned earlier, previous empirical studies have tended to focus on the use of financial reports. For instance, Raheman and Nasr (2007) investigated the impact of average collection period, inventory turnover in days, average payment period and cash conversion cycle on the net operating profitability of firms. They established significant relationships between the variables. Their findings are consistent with Padachi (2006) who tested key variables such as inventory days, accounts receivable days, cash cycle and profitability to evaluate working capital management in Mauritian small firms. Other similar studies include Eljelly (2004), Filbeck and Krueger (2005), Howorth and Westhead (2003), Lazaridis and Tryfonidis (2006), and Teruel and Solano (2007). Whereas the aforementioned studies provide acceptable explanations on working capital management, they assume well-established reporting frameworks characterized by well-structured tasks and measurable outputs, which for many small businesses is not the case. Consequently, these studies are limited in scope. By their nature and size, management in small businesses revolves around the owner-manager (Beaver, 2003; Frese, 2000; Frese *et al.*, 2002). Consequently, operations depend on the individual’s perceptions and attitudes. Few prior studies

emphasise the role of the individual in small businesses. For instance, Krauss *et al.* (2000) examined the psychological model of success among South African small business owners, and found that the role of the individual is fundamental for business success. This was confirmed by Frese *et al.* (2002). Therefore, given the central function of the owner-manager of small businesses, it is expected that the personal characteristics of the owner-manager may provide a clearer understanding of working capital management in these businesses rather than structures and systems, which may be non-existent.

Secondly, by focusing on the output perspective, less attention has been paid to the process perspective. Prior studies are constrained to answering ‘what state a business is in’ and are unable to explain ‘why or how a business reached its current state’. The few studies that have attempted to examine working capital management practices without necessarily using working capital ratios are also limited to providing insights on the outcomes (see Agyei-Mensah, 2011; Nguyen, 2001; Poutziouris *et al.*, 2005). This limits our empirical knowledge on the activities and processes involved in managing working capital. For instance, Agyei-Mensah (2011) examined working capital management practices in Nigerian small businesses and reported that: 33% of the respondents claimed that they used cash budgeting very often; 36% never reviewed their debtors’ credit period; 78% never reviewed bad and doubtful debts; and 35% never reviewed customer risk standing. With reference to stock management, 70% never reviewed stock levels and 80% never used the economic order quantity model. The question that arises is, so what do they do and how?

Nguyen (2001) investigated financial management practices in small Vietnamese businesses. The findings showed that: the majority of respondents (80%) often or always prepared cash budgets; 83% determined cash balance based on the owner/manager’s experience; 77% sometimes had cash shortages; 54% rarely had a cash surplus; 75% did not invest any cash surplus; 52% sold on credit; 40% often set up a credit policy; 81% reviewed their debtors levels monthly; 46% always prepared inventory budgets; 51% reviewed inventory levels monthly; 94% determined inventory levels based on the owner-manager’s experience, while 89% did not know the economic order quantity model. Grablowsky and Rowell (1980) and Poutziouris *et al.* (2005) report similar findings. According to Munene *et al.* (2005), by studying the product, we merely describe it, but by investigating ‘how it came to be’, we can explain it. We need to answer the

‘how’ question about working capital management in small businesses by unearthing the actions individuals initiate in managing working capital.

4. Action theory

Action Theory (Frese & Zapf, 1994), which centers on focus, sequence and action structure, was developed to model an understanding of the action process, whereby focus is represented by the task itself. Sequence looks at the broad range of activities, dividing them into goal setting, mapping the environment, planning, monitoring and feedback. Action structure is about cognitive regulation of behavior, implying that initiation of actions is dependent on self-regulation mechanisms. If well done, the key outcomes of working capital management in small businesses are reduced stock out costs, reduced cash problems and increased debt collection rates. Achieving this involves planning, monitoring and control activities and a series of deliberative steps. For instance, in managing inventory, owner-managers must first identify the key activities and the critical outcomes associated with the activities such as setting inventory limits in order to reduce stock out costs. They then collect information from the environment on suppliers, prices and stock availability, plan how to achieve the set goal, monitor the process of executing the plans and finally process feedback from suppliers and customers. The same sequence applies to managing receivables, payables and cash. Over time, these sequences become reflexive. Given that management of small businesses revolves around the owner-manager, self-regulatory mechanisms such as attitudes and perceptions play a big role in managing working capital. Therefore, the process perspective of working capital management is a direct reflection of an understanding of action theory.

The theory has been successfully applied to analyze the process perspective in prior studies. For instance, Munene *et al.* (2005) employed action theory to analyze poverty-carrying actions referred to as poverty carriers that actors initiate. They found evidence that the poverty state of individuals’ was a function of the acts they initiated. Frese and Sonnentag (2000) focused on process characteristics of the task accomplishment. They found that task accomplishment was a function of the acts initiated. In this study, the outcomes of working capital management in small businesses are traceable to the actions that the owner-managers initiate. Therefore, this

study sought to examine how small business owners manage working capital using an action framework.

5. Methodology

The study adopted a qualitative research method to examine the working capital management process from the context of the respondents. This approach is widely accepted and applied in the small business context (Grant & Perren, 2002; Halabi *et al.*, 2010; Perren & Ram, 2004). The businesses of interest were those situated in the Central Business District () of Kampala, Uganda. This region was chosen because it is the commercial heartland where most business activities take place. In addition, small businesses are predominant and easily accessible (Kazooba, 2006; MFPED, 2006). Purposive sampling was used to select study participants. The interviewer invited participants at a business exhibition organized by the Uganda Manufacturers Association (October, 2011) to participate in interviews. The criteria for selecting interviewees were that the respondent had to be either an owner or a manager of a small business, and the business had to be more than six months old and employ 5-49 workers. The required number of participants was reached when the point of saturation was achieved, whereby analysis of additional interviews led only to aspects that had already been mentioned in previous conversations and did not result in new findings (Creswell, 2006).

Data were collected using semi-structured interviews. As Qu and Dumay (2011, p. 9) observe, “a semi-structured interview involves questioning guided by identified themes in a consistent and systematic manner interposed with probes to elicit more elaborate responses”. Miles and Huberman (1994) assert that this approach enables the generation of descriptions grounded in reality. In addition, the sensitivity of the discussion topic (money matters) made interviews a better choice. The interview guide was developed after a comprehensive review of the literature with respect management aspects (i.e. planning, monitoring and control) of inventory, accounts receivable, cash and accounts payable. With the permission of the respondents, all interviews were audio recorded, transcribed verbatim and memos were written to summarize the information obtained. The interviews lasted between 45 minutes and 1 hour.

The interview data were analyzed using content analysis techniques. Basing on guidelines by Miles and Huberman (1994), Pope *et al.* (2000), Creswell (2006) and Bazeley (2007), the

following steps were taken to analyze the data. Transcribed data were entered into QSR NVivo 8. Units of analysis were the paragraphs in each transcript that dealt with the separate working capital components. The initial coding was deductive. Using prior research, a scheme representing aspects of working capital management was developed. Operational definitions were determined to facilitate the coding process. The predetermined categories were then coded into tree nodes. A second round of coding was undertaken in which all transcripts were carefully reviewed, categorizing text sentences into emergent themes. The emergent themes formed the subcategory codes within each of the major categories. This approach helped to manage the data and eliminate irrelevant data. Using selective coding, the components of each subcategory were specified. This involved grouping quotations from the transcripts that represented each subcategory. This enabled us to use the participants' own words as much as possible so as to maximize representation of participants own views as opposed to those of the researchers.

After the comprehensive coding process, cross case analysis was carried out. For each of the codes, the different working capital management behaviors were compared. Careful analysis of the coded record helped to ensure that the domains derived accurately reflected participants' perspectives, and not the researchers' own bias. This is particularly important in naturalistic research, in which the researcher must be sincere in addressing the subjects' views of the world, which are after all the subject of analysis. The data were further explored to identify relationships within the data using the search option. This enabled an in-depth understanding of what each code statement and relationship meant and the exploration of complex ideas or hypotheses.

6. Findings

6.1 Sample characteristics

Ten small business owners-managers were interviewed after which the point of saturation was achieved. The details of these businesses are presented in Table 2.

<insert table 2>

The results show that most of the businesses are aged over one year except for the charcoal briquette maker who had been in business for seven months. In Uganda, most businesses employ

both full-time and part-time workers (casual workers). The results in table 2 indicate the number of full-time employees. Eight of the participating businesses employed five and more full-time workers. Table 3 shows the demographic characteristics of the interviewees.

<insert table 3>

Eight out of ten interviewees were in the 29-39 years age bracket. The age distribution is an indication of youth dominance in the small business sector. The findings are consistent with GEM-Uganda (Namatovu *et al.*, 2010) and the Uganda Bureau of Statistics (2007). The results also show that the majority of the interviewees (70%) obtained secondary school education, an indication of a reasonable level of literacy and comprehension of the data collection instrument. In addition, seven out of ten had prior business experience before starting their own businesses.

6.2 *Inventory management*

This construct describes how the interviewees (owner-managers of small businesses) conduct inventory planning, set inventory limits, undertake record keeping and safeguard inventory. The results show that typical inventory management in small businesses starts with generating a list of inventory requirements (a shopping list). This list doubled as an inventory/purchase budget and a purchase requisition note. The interviewees then matched it against the cash available. Credit was only sought in case of insufficient cash. This demonstrates basic inventory planning. The following responses illustrate the inventory management process.

“First of all, I spend on things that I must get. I do not just get up and get what to buy. I have to make a list of what is needed.” (Interviewee No.4)

“Yeah, I do plan. Okay, what I do. I have been in this business for more than I year. Yeah. So I know the quantity to sell per week. Because you know I stock every week. So I plan, I make a list of what I will need to sell in the next week and I go and buy. If you do that it is easy, you can also estimate how much sales you expect in that week.” (Interviewee No.2)

“I plan what I am going to prepare like today and I go and buy what to prepare for today, sometimes it is not enough but you go with that. And you see, you also cannot be sure whether you will sell all that you prepare.” (Interviewee No.6)

Six of the owner-managers indicated recording inventory in '*a way that they can understand*', while the other four felt there was no need to keep records so long as they could remember (recall) what came in and what went out. This shows that the small business owners keep inventory records in an elementary manner. The following direct quotations confirm this.

“Yeah, sure I do, but of course in a way that I can understand. For instance, I can just note how many blouses, short skirts, like that. It is not easy but I try... keep canceling them out after sale.” (Interviewee No.2)

“Of course not detailed, so long as I can understand. You see what is important is how to calculate whether you are making profits. If you are not making profits, then the business may collapse. So you have to keep checking your position.” (Interviewee No.10)

“You mean writing? I don't write but I can remember what I bought, how much and what I have sold, then I balance to see if I made profits.” ((Interviewee No.6)

In monitoring inventory levels, the owner-managers would first set an assumed inventory limit below which inventory was not allowed to drop. The inventory level was then monitored by comparing the physical count against the set limit on a daily basis, as evidenced by the following responses.

“What you do, before you close the shop, check what is there, in the morning when you report, check what is there. Then during the day, if you buy anything that has not been used, you take note.” (Interviewee No.1)

“I don't wait for the charcoal to get finished or the waste to get finished. When I see they are remaining little [reaching the assumed stock limit], I go around in the village, to collect, collect more garbage and dry so that I am ready for production.” (Interviewee No.3)

“Haah [exclaims while smiling]! You see, with the current situation, you are not sure whether you will get stock or not. So the best thing I do is, when I see my stock is reducing, I order for more. If my suppliers have stock, it takes about 2-3 days and I have the stock. So I always check my stock to determine whether I should order for more.” (Interviewee No.5)

6.3 Accounts receivable management

This construct describes how the interviewees conduct credit screening, keep debtors records and follow up due debts. The following excerpts illustrate the process that was followed.

“For those I offer service on credit or sell on credit, first of all credit is limited to those I know personally that they will not give me hard time when I want my money, so we agree when the person should pay me back. I also give my customers who have been with me for a long time ... So we have to agree and understand each other ... Of course just an understanding. When the time comes and the person has not yet paid me, I call the person to find out what is happening, ... [my dear] you also have to understand that person’s position because you may not want to lose him as a customer ... for us, we do not have books for recording, ...[but] with time you learn how to do things and be able to remember who owes you and how much. Since we give only those we know, you can remember.” (Interviewee No.1)

“Before I give credit, I know the customers. And we enter into an agreement when to pay. When the time comes, I go to them and ask for my money. If you sit and wait some of them will not pay. They want to be followed ... No, we just agree. I don’t write, because not very many people take on credit. I sell in the market and they pay cash. People don’t want to pay debts, so I cannot risk. But, there are like three or four people I give credit ... Yes I do, otherwise, how would you remember? What I do, I have my [small] book for customers, I keep updating it. And I check who has not yet paid ... Just in the way I understand, but at least it has the date, name, quantity and amount. So after paying, I write the balance.” (Interviewee No.7)

“Most of my customers pay cash. I only sell on credit to the few I know, and we agree on the payment terms ... Even when I trust they will pay, I will have to record who has taken what. The agreement can just be in words, so long as you can trust them. When the agreed time comes, I wait to see the person, if two days pass, I give the person a call. I know it will somehow be a problem because even the ones you trust can let you down. I will try and follow them up. If I fail, I forget about that person and reduce the credit deals.” (Interviewee No.10)

The results show that only two of the owner-managers interviewed issued sales invoices instead of using verbal agreements, as evidenced by the following responses.

“I give credit to only the big customers. They are more organized and will not fail to pay. They may delay to pay but they cannot fail to pay. So what I do, I give them an invoice with all the information and terms of payment. When the agreed time is approaching, I give them a call to remind them. When the day passes, I give them time after which I go physically and I am able to collect all my debts. It is not easy when it comes to collecting your money I don’t know why, and yet it is so easy for them to get my goods on credit.” (Interviewee No.5)

“Most of clients are corporate clients, they are sponsored by their organizations, ministries, so of course we trust these agencies, they are government agencies, they are credible agencies, they send their staff to come for the trainings, we issue invoices and they pay after the training ... The only problem, as you are aware, the Government as you know it, be it in Uganda or anywhere in the world, they do not always want to pay on time. So sometimes, someone can study in July and you receive the payment in December. But what we do, we do follow the normal credit management procedures, we do have a formal credit policy, whereby we do not immediately go to the courts of law straight away taking the harsh route. (Interviewee No.9)

The above excerpts show that most owner-managers granted credit on the basis of their relationship with the customer. Generally, credit was granted to only those customers personally known, implying that debtors in these businesses are intuitively selected. With the exception of two owner-managers, credit screening was followed by a mutual oral agreement on the terms and conditions of payment as opposed to issuing a sales invoice. Further, as with inventory management, the study shows that three owner-managers rarely kept written debtors records – perhaps because they felt there was no need to keep records so long as they could remember the debtors, amounts and collection due dates. This may also be attributed to the small numbers of credit customers who were personally known or the opportunity cost associated with maintaining records. However, six of the owner-managers had elementary records prepared for own consumption, while one had a computerized system for record keeping. Regarding chasing up for payments, the results show that the interviewees made phone calls on the date payment was due. This was usually followed by physical visits.

6.4 Cash and Payables management

This construct describes how the interviewees undertook activities such as cash planning, record keeping, reconciliations, safeguarding and saving cash. The results indicate that cash management in small businesses starts with informal cash planning. This involved estimating expected cash receipts and expenditure per day or week. It is interesting to note that while some owner-managers drew rough sketches, others relied on memory. Nine of the owner-managers recorded their transactions in a simple manner. All they did was record cash receipts, cash purchases (shopping lists), rent, water and electricity, leaving out other operating expenses like wages, lunch and transport inwards. With regards to conducting cash reconciliations, they did this by balancing their ‘records’ daily and/or computing ‘profits/losses’ made. This is an interesting finding given that few business owners kept sketchy written records, while most of

them relied on memory. The following quotations illustrate the processes that were followed.

“Most of the sales are in the market and restaurants around. So my workers move around selling ... So when they sell, they collect the money. When they come back, I count the money and compare to the litres sold. I have a small box, they are called what? A safe - for keeping my cash ... I bank every Monday and Friday mornings ... No, I do not prepare budgets because that is theory. What I do, when I receive cash, I sit down and see how to spend it. But I make sure I do not spend everything. I keep some for running ... I sell milk, what kind of budget will I prepare? ... So long as I can determine how much milk I can get per day, I can estimate how much sales I can make ... I have my farm book. If I buy medicines, I write down the date and amount. Sometimes, I keep the receipts sometimes I don't. So long as I have recorded in my book, I don't need the receipts. In the same book, when the boys bring the sales [cash], I count and record how much I have made for the day. So I compare.” (Interviewee No.4)

“After selling, I put the money in my wallet. Then before going home in the evening, I count the money and the broilers that are remaining ... My boys help me to sell also ... In the evening we balance the cash ... I spend on things that I must get. I do not just get up and get what to buy. I have to make a list of what is needed ... Then also, what I get from my sales, I make sure I put some on my bank account and some I use for my needs ... Budget? How do you start writing a budget for this kind of business? Budgets are for big organized businesses. You see sometimes, the things taught in school may not be applied on ground. I think if someone can say that I have 100 broilers, and I compute expected sales, I don't need other details. I just have to now make sure I get the expected sales. I then compare with how much I spent to buy the broilers and compute my profits ... I record what I have bought mostly.” (Interviewee No.7)

Further analysis showed that only one owner-manager gave discounts as a way of speeding up cash collection. The rest did not mention giving discounts. In terms of safeguarding cash collections, the interviewees utilized improvised ‘safes’. This ranged from a small box, drawer, small bag, money purse to a wallet. When asked whether they saved excess money, one of the interviewees had this to say:

“At least I know I have some little money on my account out of the (small) business that I have started, and this will encourage me to work more and produce more so that I can get more money, and expand my production.” (Interviewee No.4)

The study shows that only three owner-managers saved some amount of money in a bank account periodically. Another two imputed saving to mean safekeeping. Perhaps they understood

the risks associated with keeping cash at home or at the business premises, so they chose to bank their collections until the time it was needed. One of them had this to say:

“The money I save in the bank is mostly the capital for buying more stock and paying my workers, rent, water, electricity and other expenses. At the end of the day, I rarely have anything for myself. You see, it is difficult because it is also the business that feeds my family, pays school fees, medical and so on.” (Interviewee No.5)

The remaining five owner-managers either saw no value in saving or felt they had nothing to save. The following are some of the responses that illustrate this.

“Save? Is there anything to save? Here, I spend as it comes, there is nothing to save [*so bitter, perhaps the question was sensitive*].” (Interviewee No.8)

“When I get cash for the day, it is what I will use to start the next day. Remember that from this cash I have to clear expenses like food and pay the ‘leja-leja’ [casual workers] boys. What I am left with is what I start with the next day to buy some stock or clear expenses.” (Interviewee No.1)

“What I get out of the business today is what I will start with tomorrow. So, if I collect little cash it means I will buy less, nothing to save.” (Interviewee No.6)

Overall, the study provides evidence that the owner-managers interviewed intuitively engaged in working capital management using idiosyncratic methods such as:

- Informal planning (using a shopping list, cash budgets);
- Employing assumed/imaginary stock limits;
- Offering credit to only those personally known to them;
- Entering oral agreements regarding debt payments;
- Emphasizing cash flow based information; and
- Keeping financial information in their memory.

The various processes used by owner-managers to manage their working capital are summarized in the schematic diagram below.

<Insert figure 1>

7. Discussion

Businesses need to plan and control inventory, receivables, payables and cash in order to eliminate the risk of illiquidity and maximize profitability. This study established that small businesses prepare purchase plans and cash flow forecasts. This provides evidence of the use of planning tools in managing working capital. The finding is consistent with Nguyen (2001)'s study which revealed that majority of small firms (80%) prepare inventory and cash plans. Notably, the planning appears to be very basic. By their nature and size, such businesses do not require the conventional budgeting techniques and process. They are mainly concerned with cash flows and therefore tend to attach importance to cash flow plans. With regards to setting the minimum inventory limits, the results indicate that this was determined using assumed/imaginary stock limits. Such businesses usually have small stock levels, easy access to suppliers and tend to have personal relationship with them. As such, the use of sophisticated inventory management techniques such as the economic order quantity models is non-existent. This finding is similar with Agyei-Mensah (2011)'s study, which found that 80% of the respondents never used the economic order quantity model. The same study found that inventory level determination was based on the owner-manager's experience. It is possible that the businesses that experience stock out costs lack basic knowledge and skills.

Credit policies are essential in managing debtors (Atrill, 2009). This study found evidence that owner-managers of small businesses assess credit risk based on their personal relationship with the customer. The current task environment is characterized by personalissimo or the situation where being connected in a personal way is the real guarantee that any transaction concluded will be honored as expected (Munene, 1991). In this environment, contracts are rarely documented. In addition, the customers are not sufficiently sophisticated to demand or expect accounting documentation such as invoices, statements and the like. The finding is consistent with Eyaa and Ntayi (2010). Notably, these businesses have unwritten credit policy spelling out the credit terms and conditions. This is similar to Poutzouris *et al.* (2005)'s study that found evidence that 22% of the respondents had verbal credit policy. However, the limitation of such an approach is delay or failure to honor debts when they fall due. Poutzouris *et*

al. (2005, p. 7) reported that “debtors who are experiencing financial difficulties will look to do business with, or try to delay payment to, companies known to have poor or relaxed credit granting and collection procedures”. This suggests that some debtors tend to abuse the trust extended to them by not complying with the verbal agreements, and therefore trust may be insufficient in managing debtors.

This study also established that most owner-managers keep records in their memory. This corroborates the findings of Berry *et al.* (2002) that managers of small businesses work with accounting ideas in their mind rather than accounting data in the books. It points to the reliance on memory abilities. A plausible explanation may be attributed to the fact that the low volume of transactions does not justify additional costs associated with record keeping; there are no strict regulations or incentives for producing financial reports; and small businesses also have limited access to credit from formal financial institutions, and therefore, the issue of external pressure to maintain records is limited. In such an environment, the owner-managers usually consider it less important to keep conventional records. It also suggests that the kinds of records that are kept are for the benefit of the owner-manager as opposed to other users of financial information. Furthermore, it was established that whether written or in the owner-manager’s mind, emphasis was placed on recording cash sales and some operating cash expenses such as stock, rent and utilities. This provides evidence supporting that small businesses employ a cash accounting approach. The finding is consistent with Padachi (2012)’s study, which indicated that 60% of the respondents did cash planning and 80% paid attention to chasing up for payments. The authors concluded that small firms placed importance on monitoring cash flow. Similar findings were established by Collis and Jarvis (2002) and Maseko and Manyani (2011).

Overall, the owner-managers of small businesses control all functional areas of the business. This suggests that working capital management practices in these businesses are driven by the attitude and motivation of the individual and contextual factors. Thus, the study findings mean that having well-structured tasks and systems may not be applicable to small businesses. Therefore, if the outcomes of working capital management are to improve, the attitude and motivation of the owner/managers need to be enhanced through knowledge management.

8. Conclusion

This study examined the actions that owner-managers of small businesses undertake in managing working capital. It can be concluded that they intuitively plan, record, monitor and control their working capital. This implies that the general working capital management principles apply to small businesses. However, the difference between small and larger entity practices lies in the processes undertaken. Owner-managers of small businesses do not require the same degree of sophistication employed in planning, monitoring and control. They require soft skills. However, they also need to be pro-active and familiarize themselves with better work methods that can improve management of working capital. This suggests that academics and practitioners need to emphasize the element of knowledge management. This study also indicates that the owner-managers do not need to keep the conventional records, but rather focus on cash flow based information management. This means that the assumption that every business person should keep records of a conventional nature is fallacious. It is recommended that policy makers should develop policies that take into account the specific needs of small businesses. It is erroneous to bundle these businesses with larger ones, given the differences in the task environment.

This study demonstrates the usefulness of an action oriented perspective of working capital management. Acknowledging that working capital management requires action, a more detailed investigation of the steps in the action sequence may advance our understanding of the process. Furthermore, in the view of the fact that management of small businesses revolves around the individual, it is reasonable to conclude that factors such as experience, perceptions and attitudes may influence working capital management. Therefore, the need to develop a model that includes the individual in the working capital management equation is evident. Future studies should examine the personal characteristics that may explain small business owner-managers' actions. This study focused on a small sample of 10 participants and therefore generalization of the findings is restricted.

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Table 1: Definition of small businesses by relevant local agencies

Agency	No. of employees
The European Commission (EC) (EC, 2003)	10-49 employees
The United Nations Industrial Development Organization ()	99 or less workers for developed countries; 5-19 workers for developing countries
East African Community Countries (Ernst & Young, 2011)	Kenya (10-50 employees), Rwanda (3-30 employees), Uganda (5-50 employees) and Tanzania (5-49 employees)
Uganda, Ministry of Finance, Planning and Economic Development (MFPED)	Maximum 50 people
Uganda Small Scale Industries Association, an indigenous Non-Government Organization that promotes small scale industries in Uganda	Not more than 50 people

Table 2: Participating businesses

Interviewee	Business age	No. of employees	Business type	Nature of business activity
1	2 years 6 months	6	Service/Trade	<i>Motor garage</i> – maintenance, motor repairs and selling car accessories
2	1year 3 months	3	Trade	<i>Ladies boutique</i> – selling ladies clothes in the shop and door-to-door sales
3	7 months	7	Manufacturing	<i>Charcoal briquettes</i> – making and selling charcoal briquettes made of waste collected from garbage deposits
4	1year 5 months	3	Agriculture	<i>Dairy farm</i> – selling dairy milk
5	3years 3 months	9	Manufacturing	<i>Roasting and packaging</i> groundnuts and groundnut paste (peanut butter)
6	1year 9 months	7	Restaurant	<i>Restaurant</i> and take-away
7	3years	6	Agriculture	<i>Poultry farm</i> – poultry rearing and selling eggs and chicken
8	2years 10 months	5	Manufacturing	<i>Furniture maker</i> – making and selling chairs, tables, wardrobes, sofa sets and any other customized furniture
9	3 years	12	Service	<i>Training center</i> – providing services such as short courses and consultancy
10	1 year 6 months	3	Manufacturing	<i>Handcrafts</i> - making and selling an assortment of handcrafts (e.g. necklaces, ear rings, etc.)

Table 3: Interviewee background

Interviewee	Position	Gender	Age group	Highest education level	Previous experience
1	Manager	Male	29-39 years	Senior 2	1 year
2	Owner	Female	29-39 years	O' Level	Nil
3	Owner	Female	29-39 years	Senior 1	2 months
4	Owner	Female	29-39 years	Bachelors degree	Nil
5	Owner	Male	29- 39 years	O' Level	2 years
6	Owner	Female	29-39 years	P7	3 years
7	Owner	Male	29-39 years	O' Level	1 year
8	Owner	Male	40-0 years	P7	1.5 years
9	Manager	Male	29-39 years	Masters degree	2 years
10	Owner	Female	18-28 years	A' Level	Nil

Key:

P7 refers to primary year 7 (the final level of primary education).

Senior 1 & 2 refer to forms 1 & 2 (lower secondary education)

O'Level refers to those who completed their education at senior year 4 (lower secondary education).

A'Level refers to those who completed their education at senior year 6 (higher secondary education).

Figure 1: A schematic presentation of how working capital is managed in small businesses

