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Working Capital Management of small and medium enterprises in Cebu

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ABSTRACT

The paper aims to assess the necessity to have an efficient working capital management within Small and Medium Enterprises. In reality, SMEs practically focus only on its cash receipts together with its bank account position. Majority of SMEs lack an established standard credit policy. Many of them also have least concern for working capital and financial position. It was revealed that various components in working capital management like cash flow and accounts receivable management, accounts payable and inventory management greatly affect the liquidity and profitability of SMEs. Due to the mismanagement of its working capital, some SMEs struggle in order to survive in the industry. It is advisable for SMEs to give credit on its working capital management by conducting and implementing a customary credit policy to ensure better internal and financial control system. Hence, the significance of working capital management promotes stable, liquid and profitable SMEs.

Keywords: *Working Capital Management, SMEs, profitability, liquidity, financial management practice*

I. INTRODUCTION

Business always exists in every nation. This varies mainly on what kind of business an organization forms. People practically undergo small business that leads to medium enterprise since starting SME (Small and Medium Enterprise) requires only a small amount of investment. The SMEs act as agents and as a drawing force of economic growth and development of a country. They have a vital role in the city for it provide businessess and welfare opportunities in the community. Hence, the study is about determining how small and medium enterprises in Cebu manage their working capital.

Cebu is just a small island of the Philippines. Cebu accounts for more than 5 % of the total population and more than 10 % of the exports regardless of its size. It also has catered over one million tourists. Cebu's huge population means that it could maintain a good number of SMEs (Fajardo, 2010). A manager for SME of Dell Global BV said that no less than 80 % of Cebu's enterprises belong to the SMEs. Papa (2010) mentioned Cebu Business Club (CBC) President Dondi Joseph who said that majority of Cebuano businesses are family-owned. Food processing, furniture making, apparels, GTFAs (gift, toys and fashion accessories), house wares and metalworking are the five main SMEs in Cebu. GTFAs, furnitures and house wares were advertised as Cebu's export champions because of their superior export potential, strong backward connections and systems through subcontracting (Losorata, 2013).

SMEs are a part of the innovating culture of enterpreneurship that introduces job opportunities. Most firms, industries and government aim for profit maximization. Small and Medium Enterprises are exactly known globally as major contributors. They deliver to the economic growth and development, continuous introduction of modern technology, and the creation of generations of potential entrepreneurs. All these contribute to the development of both national and international businesses (Ching & Chang, 2005). Moreover, the development of SMEs can accelerate the achievement of a bigger economic objective, including alleviating the poverty problem of a country (Cook & Nixon, 2000). The Philippine government has initiated the promotion of SMEs as a primary strategy in achieving a sustained economic progress.

Even with these programs, Rodriguez, Senior Program Specialist of the International Development Research Centre (IDRC) in 2010 said that they are still insufficient. He said that even though there are a lot of SME development related programs, they are not effective; with no clear results after their execution. A survey organized by the German Development Institute estimated that only one to two percent of SMEs in the Philippines are able to advance, while the rest stay stagnant (Dagooc, 2013).

The reason why the small and medium enterprises do not progress or worse fail, is not only brought about by the inconsistency and ineffectiveness of the government programs. There are also other factors to consider. One of the factors is filing up with poor management (Mason, 2013). The shortage of management talent, rampant in most developing countries, has significan effect on SME's (Grablowsky, 2000). The lack of good management skills can delimit the SME's potential management improvement on its operational funds (Mason, 2013). The status of company's working capital depends on the difference between current assets and current liabilities The WCM is one of the most vital sides of the whole financial management methods of any business. The success and failure of a business depend on the efficiency and effectiveness of its working capital management (Mensah, 2004).

In assessment of their sizes and complication of their management, most SMEs miss to keep exact archives of financial activities which affect their working capital. These are deficient capital, flow of management, and control of inventory. The lack of accurate business accounts makes most SMEs become essentially hindered in supervising their working capital soundly. Most SME inadequately understood the significance of working capital management. Many SMEs are obliged to terminate their businesses due to failure in meeting their short term debts and obligations. The problem is not on their lack of resources, but on how they administer their working capital.

To advance truthful understanding in business world, conducting an examination regarding management practices of SMEs is very essential in dealing with its working capital. Most SMEs face a lot of hindrances to growth which include accession to finances, skills, technologies and markets. Examining these may address the gaps through effective strategies and policies that will make the business more progressive and active in the market place. In this case, it provides opportunities to the people who are unemployed. Likewise, SMEs would develop their confidence in the world of business where they meet different competitive companies.

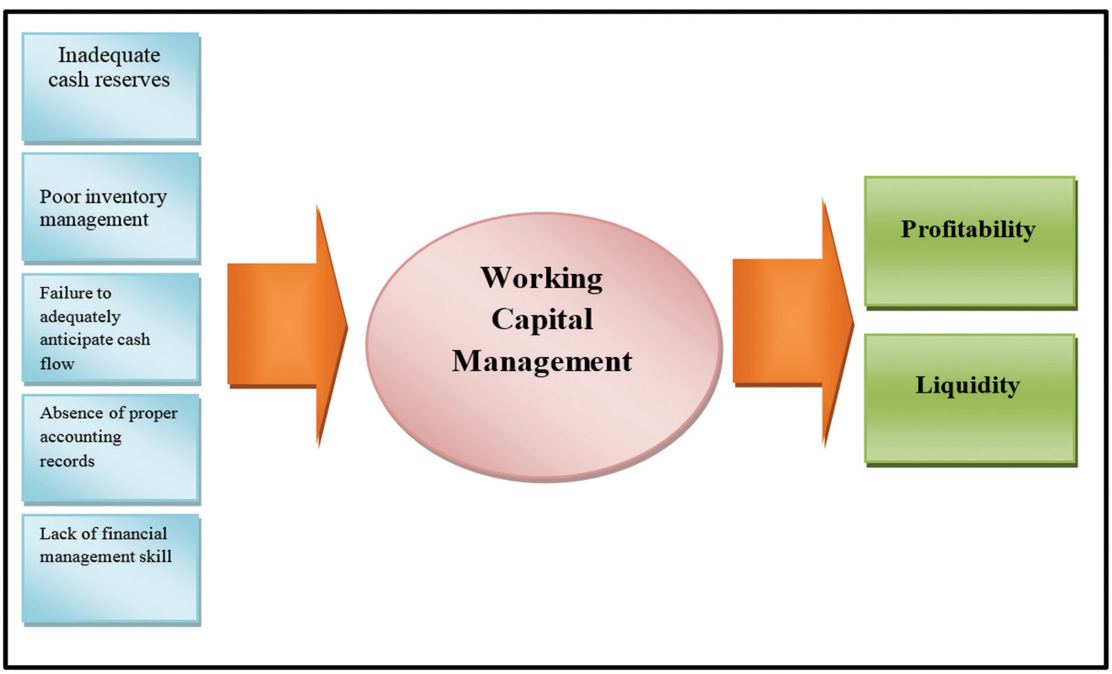
It is anticipated that the outcome will be helpful not only to small-scale business in Cebu but also to all SMEs all over the nation. The study would also guide owners and managers of the business to make and execute programs on how to efficiently manage the working capital. Decisive method management can efficiently enhance their working capital management . The article aims to deliver a valuable information for scheming strategies to impact the steady growth of small-scale enterprise. The information would also support officials of the Small and Medium Enterprise Development Council (SMEDC) in framing and articulizing SME development guidelines and procedures that are responsive to the entrepreneur's confined needs. The evidence and data may be useful to non-governmental organizations who play an important role in improving small-scale entrepreneurial skills and development in Cebu and the whole country.

II. CONCEPTUAL FRAMEWORK

The study is anchored on the theory of Pieterson (2012), that enumerates the major problems of SMEs nowadays are: inadequate cash reserves; poor inventory management; failure to adequately anticipate cash flow; absence of proper accounting records; and lack of financial management skills. Efficient and effective working capital management will lead to the achievement of profitability and liquidity of the enterprise.

Different nations undergo various ways of conducting WCM in SMEs. SMEs can be characterized as a firm that made up mostly of small and medium enterprises. It can be operated by the owner as a manager and the area is mainly local when it comes to its operation. Diversifying the nature of SMEs may contribute to the management of its working capital. In fact, when it comes to the process or means of organizing the firm it is one of the aspect for the success of the business.

Figure 1. Schematic diagram of Working Capital Management of SMEs



The firms task to manage working capital is estimated to be difficult. Since, it varies mainly to its nature such as the size of the firms, firms' policies, level of its production and the availability of resources. The efficiency of working capital management is needed mainly in SMEs rather than in larger enterprises (Peel & Wilson, 2003). This signifies that an efficient running of the business' working capital is not only imperative for the firm's survival–it is the lifeblood of its existence. It is important to have a profound knowledge of the functions of WCM in SMEs regardless of its existence to be able to promote a developed business industries.

One of the hindrances in the growth of SMEs is inadequate cash reserves which can cause failure. It is important to give attention with this because it has something to do with the meeting of the immediate obligations and continuous trading. Insufficient cash reserves will be difficult for SMEs to directly catch up with their obligations. This may be a result in failing to maintain sufficient liquidity (Diacogiannis, 2004). It is important for the business to generate sufficient cash by having adequate working capital decisions and accounting information to be able to face immediate obligations on time (Barrow, 2001).

Poor inventory management is another problem which makes the business fail to sustain. With poor inventory management, its production would be slow because they never adopt rules or policy to give attention to its resources, equipments, facilities and raw materials. Moreover, this problem will increase the risk of having late payments and defaulting debtors which may affect the growth of SMEs (Atrill, 2006). Working capital policies helps the SMEs overcome this problem by implementing inventory policies in their business. Inventory policies helps to manage when purchasing raw materials and drop shipping just in time (Bragg, 2011).

Most SMEs internal problems were identified as cash flow management and stock control (Dogde, 2004). SME's stock management also gets benefits from standardized systems and techniques that help improve their stock levels. However, one third of SMEs depends on the old-style methods of controlling stocks and most did not apply innovative practices (Chittenden & Michaelis, 2008). In this case, SMEs need to be more careful in preparing and monitoring the cash flows in the long run so that they will not fail in adequately anticipating cash flow (Atrill, 2006).

Absence of proper accounting records is another issue faced by SMEs. Most SMEs do not keep their accounting records during operations. That is why SMEs face a problem in differentiating clearly between working capital and profits. For this instance, working capital management focuses on maintaining the high range of net capital that gets the most out of the profit of the business (Shane, 2000).

Lastly, is the lack of financial management skill. Most of SMEs find it hard because it involves managing the stock of the business. Financial management is primarily concerned on the upkeep and conception of economic value. It gives SMEs an idea on how to make proper decision making which maintains their financial stability. SMEs need to be skillful so that they will know how or when to deal financial decisions such as introducing new product, issuing stocks or bonds, extending credit to customer and maintaining cash (Kehinde & Abiola, 2005). Moreover, SMEs would be aware of the cost involved and they can formulate an effective WCM system in having a well-planned financial management and decisions (Atrill, 2006).

Through brief identification of the firms problems we may be able to manage our working capital management effectively and accurately. In the life of SMEs, working capital management is of upmost important tool that leads them to react quickly to the changes in the market place, such as an advantage of gaining a competitive firm (Appuhams, 2008). Accordingly, the administration of optimizing the curent assets and current liabilities is part of WCM. There is a relationship between the enterprise short-term assets and liabilities. The goal of working capital management is firms' current assets and liabilities in a way to uphold reasonable level of WCM in the business (Khan & Jain, 2007). Another goal of WCM is to encourage firms' continuous processes and adequate cash flow to satisfy the growing short-term liabilities and inward operational expenses. It is helpful also to recognize the regulations, alteration and control of the equilibrium of current assets (Osisioma, 2007).

Coherently, the goal is not only to view the business as a profitable one. The significance upon establishing a business like SMEs is to maintain its profitability and focus on its liquidity to avoid illiquidity and insolvency. Engagement in the various variables of WCM may lead to the identification of the importance of WCM in SMEs. Providing an organized and manageable WCM sustain the gaps of SMEs in the competitive world of business. In spite of all the risk, the SMEs confront these businesses are widely introduced and practiced.

To give more emphasis, there must be a connection between liquidity and profitability since profitability differs inversely with liquidity. Moreover, profitability is directly proportional with risk. Risk and return goes hand in hand, the greater the risk the greater its return. Proper management of working capital needs to be implemented to be able to handle risk that SMEs might encounter in the future. After all, countless of businesses can sustain to lose money from time to time, but no business can hold to run out of cash (Meritt & Media, n.d.). So, if you are unable to have cash you might suffer lack of supplies to operate the business or pay the bills that lead to the end of business. That is why WCM greatly affects the stability of SMEs in business industries. Therefore, the effects of WCM reflect on the life span of the SMEs.

II.OBJECTIVES

Generally, the objective of the study is to evaluate the working capital management practices of the SMEs in Cebu. Specifically, the study wanted to: examine the working capital management and strategies of the SMEs with respect to their cash management; accounts receivable management, inventory management and accounts payable management; and find out the bookkeeping practices of SMEs, and the short-term source of funds of SMEs.

III. RESEARCH DESIGN AND METHOD

The study is quantitative. It has three important aspects; the idea of the problem; the gathering of data; and the output of the study. The conceptualization stage was based on some assumptions that revolve on effect of the working capital management of SMEs. The gathering comes next that relates to the tools result. At the end, we may be able to determine the result as well as to formulate an output of the study by tabulating the information being gathered.

The self-made tools used by the researchers for the study were the questionnaires designed by the authors to collect data needed to address how SMEs manage their working capital in managing their business in Cebu City. It underwent a test of reliability and validity by the research adviser and industry partners to ensure cohesiveness of gathered data. The questionnaires have three variables: (a) the system of debt payments; (b) the working capital management that will motivate SMEs; and (c) the use of short-term sources of funds which comprise an indicator that contains relevant questions regarding how WCM in sales places a vital role to the industry and economic growth.

The respondents of the study include those people who are particularly knowledgeable to the operations and manning of the business, specifically, the owner or managers of SMEs in order for the researchers to arrive at a very realistic conclusion.

The study was conducted within Cebu province particularly in the city where SMEs are congested. These are SMEs who practically allowed us to conduct survey in their establishment.

The study exercises the convenience sampling method of research. This method is likewise known as survey research. On this method, only the questionnaires are used in gathering the needed data since they are the easiest and most applicable technique under the given situation. In the study, 200 questionnaires were distributed only to those SMEs within the Cebu area that had managers or owners who had the luxury of time to fill out the questionnaires.

IV. RESULTS AND DISCUSSIONS

The proponents were able to gather data regarding the nature of SMEs in the market industry. Specifically, 200 respondents from different places in Cebu province favors mostly in sole proprietorship 142 (71 %), in partnership 53 (26.5 %) and corporation 5 (2.5 %). When it comes to the type of business, food eatery is most likely used. In relation to its location the result shows that 153 (76.5 %) of SMEs are located in Cebu City, 21 (10.5 %) in Mandaue City, 22 (11 %) in Lapu- Lapu City, and 4 (2 %) in Talisay City.

Working Capital

The firm's working capital is made up of its current assets and current liabilities. The current assets comprise all assets that the firm expects to convert into cash within the coming year. While current liabilities compromise all liabilities that the firm must meet or pay within the coming year. Working capital management can be divided into four sections: (a) the cash management; (b) accounts receivable management; (c) inventory management; and (d) accounts payable management.

Section A: Cash Management

Table 1.1. Initial sources of funds

Source	Frequency	Percentage
Self-financing	155	77.5
By borrowing from Bank	22	11
By borrowing from colleagues	17	8.5
Purchasing on credit	4	2
Others	2	1
Total	200	100

The businesses are said to be ready in setting up its business operations if it invests through self-financing (Pieterson, 2012). The study proved that 155 (77.5 %) invest via self-financing which means most of SMEs are ready in attaining their goals in setting up business operations. The rest were financed by borrowing from bank 22 (11 %), borrowing from colleague 17 (8.5 %) and purchasing on credit 4 (2 %). Out of 200 respondents, 2 (1 %) used lending in setting up their business which is one of the factors why some SMEs ceased their business. Lending is not advisable in setting up business operation because of the time granted to the debtors. Unlike to the bank and colleagues which they can extend their period of time depending on the contract they have. Pieterson (2011) advised SMEs to use self-financing in setting up business operation so that there will be no difficulties in running their business.

Table 1.2. Cash Budget

Answer	Frequency	Percentage
Yes	60	30
No	140	70
Total	200	100

Preparation of cash budget is very important in the life of SMEs. Out of 200 respondents, there are 140 (70 %) who did not prepare cash budget and only 60 (30 %) who prepared cash budget. The preparation of cash budget will help SMEs plan influxes and discharges of cash. It is used to approximate its short-term cash requirements particularly in planning for surplus cash and for cash shortage (Gitman, 2011).The study shows that SMEs were not aware of the importance of preparation of cash budget. SMEs are advised to prepare a cash budget so that they will be guided in handling their cash rather than continuing operation without any awareness to their cash.

The study also prevails that 47 (78.33 %) of the enterprises did not spend within their budget. It means that SMEs do not follow the prepared cash budget. As a result, SMEs were encouraged to prepare cash budget and spend within the budget so that the flow of cash will be handled properly.

Table 1.3. Methods of managing cash generated on a daily basis

Methods	Frequency	Percentage
Placed inside the office vault	118	59
Deposit in the bank	63	31.5
Others	19	9.5
Total	200	100

The above table shows that 118 (59 %) of the SMEs place their cash inside their office vault. This method is advisable because they have set time on when they should spend or deposit their proceeds (Pieterson, 2012). However, 63 (31.5 %) chooses to deposit their generated profits in the bank to ensure the safety of their money. These methods were not applicable by other investors because banks are not in service every day and it follows holidays. Investors say that when they do depositing every day, there will be mismanagement of cash because the procedure they prepared will not be followed. As a result, the study proved that SMEs prepared to choose in placing their proceeds inside the vault first before having or acting a wise decision-making.

Table 1.4. Techniques by which surplus cash is invested by entrepreneurs

Methods	Frequency	Percentage
Bank deposit	156	78
In long-term deposit	12	6
Debt or equity securities	12	6
Others	20	10
Total	200	100

The surplus cash that SMEs generate is advisably be deposited in bank (Pieterson, 2012). The study proved that out of 200 investors, 156 (78 %) of them are prepared to deposit their surplus cash in bank. Their reason is that they want to meet their immediate obligations or the unexpected expenses and unforeseen opportunities of their business operation. Thus, the result is highly favorable as to what stated. Long-term deposit and debt or equity securities that generated the same percentage of 6 will not be applicable in SMEs because these two strategies required large capital and SMEs have only short-term funds. Also, they were more on expenditure and progression for their business operations and if they engage in those strategies, they will experience difficulties in meeting their obligations. As a result, SMEs were encouraged to deposit their surplus cash in the bank before engaging to other field particularly in a long-term investment.

Section B: Accounts Receivable Management

The accounts receivable management is a critical field of the business because of its impacts on the firm's risk and profitability. However, sales on credit are unavoidable in every business present today (Vuorikari, 2012). Nevertheless, 52 (26 %) out of 200 respondents did not sell their merchandises on credit for the reason that they did not want to take risk. If a supplier needs to place a bigger order from a firm, that supplier may not have the sources of funds to pay for it. That order will go to another company unless your small business extends credit (Peavler, n.d).

Table 2.1. Time durations given to the customers to settle their debts

Durations	Frequency	Percentage
Fifteen days	58	39.19
One month	46	31.08
Twenty-one days	22	14.86
Seven days	8	5.41
Others	14	9.46
Total	148	100

Based on the gathered information gathered, table 2.1 shows that of the 148 interviewers who operated their business on credit, 58 (39.19 %) said their debtors paid them in 15 days, 46 (31.08 %) respondents said that they were paid in one month, 22 (14.86 %) were paid in 21 days, only 8 (5.41 %) said that they were paid in 7 days and 14 (9.46 %) said that the days or period the customers pay their debt varies. Rahemen (2011) said that if the firm takes a longer duration in collecting receivables, the profitability of the firm decreases. He added that if it takes for customers to pay their bills in a lesser time, then the more cash are available to replenish inventory. Hence, the shorter the period of collection the higher the sales obtained which leads to higher profitability.

The standard way before granting credit to a customer is checking their credit rating or having a formal credit investigation to avoid bad debts. Sadly, out of 148 entrepreneurs who credited their goods, only 38 (25.68 %) undertakes formal credit investigations before granting credit to their customers. Thus, 110 (74.32 %) never undertakes such investigations because they said that it is time consuming. The 38 SME operators employed credit investigation process to assess the credit worthiness of their customers. These procedures included conducting investigations on customers past records from other business firms, checking their past financial dealings with their industries, checking their bank references and other measures. With regard to the first procedure only 8 (21.05 %) of the 38 operators

Table 2.2. Kinds of formal credit investigation methods applied by the SME respondents

Procedure	Yes		No		Total	
	Frequency	**Percent**	**Frequency**	**Percent**	**Frequency**	**Percent**
Investigate customers past records from other business firms	8	21.05	30	78.95	38	100
Check customers past financial dealings with the enterprise	35	92.11	3	7.89	38	100
Check customers bank reference	8	21.05	30	78.95	38	100
Other measures	28	73.68	10	26.32	38	100

checked their customers past records from other business firms. However, 30 (78.95 %) of the operators did not apply this method of credit investigation. On the second procedure, the entire 38 (100 %) respondents who undertook formal credit investigation said that they examined their customer's past financial transactions with their industries. On the third procedure 8 (21.05 %) said that they check their customers bank reference and 30 (78.95 %) of the respondents said they did not take such measure. Twenty-eight (73.68 %) of the operators said that they took other measures before granting credit to their customers and 10 (26.32 %) of the operators did not apply other measures. The analysis suggests that most SME investors did not have good credit investigation. Brook (2011) stated that a good credit investigation should contain all the three procedure mentioned above.

Table 2.3. Evidences to suggest customers' indebtedness

Form	Frequency	Percentage
Charge invoice	60	40.54
Promissory Note	47	31.76
List on notebook	41	27.70
Total	148	100

In granting credit to customers, there must be an evidence to advocate their indebtedness. Sixty (40.54 %) out of 148 respondents said that they use charge invoice as an evidence of indebtedness of their customers. Charge invoice is a bill sent by a supplier of a product or service to the purchaser. The invoice launches an obligation on the part of the purchaser to pay, creating an account receivable (Murray, n.d). The 47 (31.76 %) of the operators said that they use promissory note as a proof of indebtedness of their debtor. A promissory note is a financial tool that contains a printed promise by one party to pay another party a definite sum of money either on demand or at a specified future date (Investopedia, n.d.). Charge invoice and promissory note are both good evidence of customer's indebtedness. They both contain considerable information as a proof of the debt of the customers. The usual segment of a charge invoice includes: date, customers' names and suppliers' addresses, contact names, description of items purchased, products or services, and the term of payment (Murray, n.d). Promissory note on the other hand contains all the terms pertaining to the indebtedness by the issuer or maker to the note's payee, such as the amount, interest rate, maturity date, date and place of issuance, and issuer's signature. Forty-one (27.70 %) of the respondents only listed the names of their debtor, the date and the amount of their debt on a notebook to acknowledge that a debt exists. This kind of method is not preferable if your business is growing because it can cause many errors and there is a big chance that the notebook will be lost.

Table 2.4. Offer cash discount for early payments

Answer	Frequency	Percentage
Yes	95	64.19
No	53	35.81
Total	148	100

Cash discount is an incentive that a seller proposes to a buyer in return for paying a bill owed before the scheduled due date. The seller will normally lessen the amount owed by the buyer by a small fraction or a set dollar amount. If used properly, cash discounts would improve the days- sales- outstanding aspect of a business's cash conversion cycle. Providing a small cash discount would be beneficial for the seller as it would permit him to have contact to the cash sooner. The earlier a seller receives the cash, the earlier he can put the money back into the business to buy more supplies and/or grow the company further (Investopedia, n.d.). However, out of 148 enterprises who said that they sell their goods in credits only 95 (64.19 %) applied cash discount to their customers. Hence, 53 (35.81 %) did not apply cash discount. The reason why they did not apply cash discount is that perceive it would lessen their profit.

Section C: Inventory Management

The firm's inventory management is the most serious component of working capital, since it is the least liquid and consequently tends to be a cash trap. When funds have been spent on inventory the period of time needed to convert it back into cash can be quite long, so it is wise to invest in minimum possible amount of inventory (Bragg, 2010). Part of inventory management is to control stocks in the warehouse. The study shows 136 (68 %) of the 200 SMEs operators experienced small pile up of inventories which is quite advantageous for the enterprise. This specifies that lesser inventories are better given when the cash is not tied up in its inventories. Nonetheless, 64 (32 %) of which says they meet large pile up of inventories because this will guarantee that all orders could be occupied quickly, eliminating the need for backorders due to stock outs. In this case, an opportunity cost is high. Therefore, careful decision and control are required to secure a successful operation of inventories in the business.

Table 3.1. Keep all inventory records

Answer	Frequency	Percentage
Yes	62	31
No	138	69
Total	200	100

Based on table 3.1, the results reveal that 138 (69 %) of respondents disregard the significance of keeping records because they simply misplaced it. Practically, 62 (31 %) said they patiently kept records of their inventories for tracking supplies and safekeeping purposes. It is advisable to keep records. It provides benefit to the operation of the business such as having reliable records to the company to be able to plan, strategize and stay within its budget. On the contrary, not keeping records may lead to failure in tracking inventories that will lessen the chance of business to customer's demands. Consequently, practicing inventory control mechanism is a technique of protecting SMEs in going on over stock or under stock (Clodfelter, 2003). As a matter of fact 152 (76 %) of the entrepreneurs did undertake physical counting this method, otherwise known as *click sheet*. Physical counting or manual control of inventory is not desirable to use since it seems to be tedious, time consuming and prone to human error. While 48 (24 %) utilized a software system since it provides a more accurate and timely data. As a result appropriate inventory control management minimized wastage of raw materials.

Table 3.2. Time durations of physical counting undertaken by entrepreneurs

Durations	Frequency	Percentage
Daily	73	48.02
Weekly	20	13.16
Monthly	44	28.95
Semi-annually	4	2.63
Yearly	8	5.26
Others	3	1.97
Total	152	100

In monitoring inventories, physical counting is the easiest way. Other firm exploited this manual tabulation of data for it is cheaper than using software. Table 3.2 illustrates that there were respondents attending their inventories by physical counting in daily basis 73 (48.02 %), weekly 20 (13.16 %), monthly 44 (28.95 %), some were semi-annually 4 (2.63 %), yearly 8 (5.26 %) and others when the need arises 3 (1.97 %). While the remaining 8 respondents did not undergo inventory for the reason that they did not recognize its importance. Early tabulation of data through inventories are preferred because it is necessary for the enterprise to dispatch these stocks in the market to convert to cash for utility resulting to low opportunity costs. Therefore, managing the inventories provides information needed by the business especially in marketing strategy since it can be used to identify slow-selling merchandise and allows business to reduce its price if possible before consumer's demands completely disappear (Clodfelter, 2003). Hence, SMEs are less aware to the significance of inventory management practices. For those knowledgeable, the ability to apply these practices in real transactions are very limited.

Section D: Accounts Payable Management

The researchers gathered data on how the SMEs manage its accounts payable. Since, external sources of fund arising mainly from normal operations of the business which include accounts payable.

Table 4.1. Time durations that the debtors settle their obligations to their creditors

Durations	Frequency	Percentage
7 days	36	24.66
14 days	43	29.45
15 days	13	8.90
21 days	16	10.96
1 month	26	17.81
1 year	4	2.74
Others	8	5.48
Total	146	100

Based on the collected information, it shows that SMEs transact business with the use of credit. Interestingly, 146 (73 %) of respondents exploited purchasing goods on credit rather than 54 (27 %) purchasing goods in cash because they can use cash on hand in their short term transactions like employees salary and other expenses for the business to operate daily.

Table 4.1 shows period of payments that a debtor settles their debts to their creditors. To the creditors if the buyers pay their bills before or within 7 days (24.66 %) or in accordance to its credit terms that is likely favorable to the creditors side. Whereas for the debtors, the longer it takes for the buyers to pay its obligations 14 days (29.45 %) is satisfactory since their cash can be temporarily utilized as a source of funds in operating the firm. Aside from the aforementioned data, they do not only shows its earlier payments but also its longer period: like 15 days (8.90 %), 21 days (10.96 %) 1 year (2.74 %). Moreover, it is not advisable to settle debts for a longer period since the necessary payments to suppliers is only one month. This may result to misunderstanding between supplier and the clients unless there was negotiation. Thus, stretching the accounts payable is a strategy used by a firm to delay the payments of its obligations without necessarily changing its credit reputation. This strategy reduces the cost of giving up cash discounts (Laman, 2008).

Table 4.2. Negotiate with their creditors to extend credit terms

Answers	Frequency	Percentage
Yes	132	66
No	68	34
Total	200	100

Table 4.2 illustrates that 132 (66 %) entrepreneurs negotiate with their creditors (favorable to the debtors) compared to 68 (34 %) remaining (not be able to negotiate with their creditors in extending their credit period). It should be advisable to negotiate with creditors because it is really helpful in extending credit terms. Critically maintained credit lines (late payments) may result in the company being a 'blacklisted' by credit bureaus making it more problematic or expensive to

secure financing in the future (Investopedia, n.d.). Superior supplier relationships provide a win-win situation for the company as well as the supplier. Suppliers will bring in good deals for the company and will advocate excellent and high quality products to the company. Therefore, good supplier or company relationships mean increased company efficiency so it must be cultivated.

Table 4.3. Use short-term funds for long-term investments

Answers	Frequency	Percentage
Yes	108	54
No	92	46
Total	200	100

Short-term financing is a foundation of 'quick' liquidity for the business, in particular SMEs, who do not have large pool of standby funds for emergency uses (Laman, 2008). Hence, short-term finance provides almost instant funds to such challenging situations that could otherwise impact the continual concern of SMEs. Table 4.3 shows that out of 200 respondents the 108 (54 %) entrepreneurs compared to 92 (46 %) uses short-term funds of the business for long-term investments. Decrease in cash reduces the firm's capability to acquire its financial obligations with more risk. Entrepreneurs also take risks in investing their funds in a long-term investment. This provides them funds to utilize for their obligations in times of difficulties in business.

Bookkeeping

Bookkeeping is very important in the operation of business because it is the process of recording all financial transactions made. Transaction includes purchases, sales, receipts and payments by an individual or organization. The bookkeeper who performed the recording is responsible for ensuring daybooks. It consists of purchases, sales, receipts and payments.

Table 5.1. Record all cash transaction

Answer	Frequency	Percentage
Yes	57	28.5
No	143	71.5
Total	200	100

Results show that only 57 respondents record their cash transactions through bookkeeping and 143 respondents did not record the cash transactions of their business. Majority of the respondents answered "No" because they said they are not knowledgeable on proper recording of cash transactions and they are not required to have books of account. On the other hand, those that are able to record transactions do it because they are required.

This would probably indicate that these most SMEs don't have enough ability to expand the business or even hire personnel to record transactions. Only few have the capability to hire personnel to record and keep cash transactions.

Table 5.2. Keep and maintain the required books of accounts

Answer	Frequency	Percentage
Yes	63	68.5
No	137	31.5
Total	200	100

Results show that 68.5 % of respondents does not keep or maintain books of account of their business, while 31.5 % of respondents answered “Yes”. The results still imply on the status of business earning and capability of hiring someone to keep the businesses’ records. Tracking its earnings, profit or loss, recording its business data, and keeping the financial records of the organization are just as important to earning profit. The 137 respondents that do not keep and maintain its books of account cannot confidently say that their business is earning profit for there is no data to support. On the other hand, the 63 respondents who did record kept and maintained its books of account have the privilege on making the right decisions on the business.

Table 5.3. Methods use on keeping and maintaining books of account

Answer	Frequency	Percentage
Computerized (MS Excel)	47	74.6
Manual/Tradition	16	25.4
Total	63	100

Results revealed that out of the 63 (31.5 %) respondents who answered “Yes”, only 16 respondents said they still use the manual or traditional way or method of keeping the businesses’ books of account while 47 out of 63 respondents are now practicing the computerized (MS office Excel) method of keeping books of account.

This further indicates that there are some businesses (25.4 %) that are not yet capable or have not come up with the technology that most companies are using on keeping books of account today. Although there are programs that have been developed to meet the needs of companies who are having a hard time keeping and maintaining its books of account. However, it adds another cost for the company. It is more favorable that the business would use the computerized method for this has been proven to be a more effective and reliable system. Nevertheless, majority (74.6 %) have adopted with the new system and should expect efficient results on keeping their records.

Table 5.4. Academic qualifications of accounting personnel

Qualification	Frequency	Percentage
Accounting graduate	27	42.8
CPA	18	28.6
Degree in Business Administration (e.g Bookkeeper)	18	28.6
Total	63	100

Results show that out of 63 respondents who did keep books of account; 27 (42.8 %) businesses hired accounting graduates, 18 (28.6 %) businesses hired CPAs and 18 (28.6 %) establishments hired business administration graduates.

Analysis implies that these businesses do need personnels that are knowledgeable and have the capabilities to be reliable on keeping their books. It is highly favored that business can function effectively with this kind of practice for they are able to forecast and look back on previous transactions. Majority of the respondents though (42.8 %) prefer more on hiring accounting graduates which we think can pay less salary than a CPA but still can deliver. While CPA and BA graduates have an equal result of 28.6 % each, this implies that there are still businesses that favor this kind of qualifications, since it is much cheaper.

Short-term sources of funds

Short-term sources of funds are the money desired for fiscal activities carried out for less than one year. These funds are normally used for day to day operations such as stocks ordering, advertisement expenses and payment of wages.

Table 6.1. Short-term source of funds

Source	Frequency	Percentage
Self-financing	120	60
Bank	45	22.5
Colleagues	18	9
Lending	13	6.5
Suppliers	4	2
Total	200	100

There are 18 respondents who identified sources of short-term funds the business can get or borrow from, but there are only 5 sources that stood out. Forty- five respondents borrowed it from the bank, 18 from their colleagues, 13 borrow from lending firms, 4 from its supplier, and 120 from self-financing.

When the business is able to self-financially support its immediate funds it just shows the efficiency of the business on using its earnings and current assets. This does not necessarily mean that others cannot support its short-term funds by their own. It all depends on how the SMEs handle their on hand cash and current liabilities.

Table 6.2. The kind of financing the entrepreneur is it favorable

Answer	Frequency	Percentage
Yes	180	90
No	19	9.5
Others	1	0.5
Total	200	100

Results revealed that 180 (90 %) respondents said that the kind of financing they follow is favorable to their business while 19 (9.5 %) respondents said it is not and 1 (0.5 %) said it all depends. There are many advantages and disadvantages on different kinds of financing but it really all depends on what line of business you are in and the financing culture involved. There is a need to determine or forecast the short-term funds. This is necessary to operate with flexibility when the time comes that financial resources are needed.

Self-financing is truly favorable because this does not apply interest on the money the business uses. Unlike in banks, lending firms and other sources they apply interest and maturity date to be followed.

V. CONCLUSION

Reliable working capital management practices can boost profitability of the SMEs. Entrepreneur must ensure that they utilize adequate WMC since a working capital may affect the operation of SMEs which deter them from its capability to compete effectively. It was affirmed that there is meager liquidity in small business due to excess current liabilities from current assets that lead to shortage of fund. Small firms become insolvent since it is hard for them to gain access to financial assistance from financial institutions. Financial institutions usually ask for requirements which small firms cannot provide.

SMEs have weak financial position due to its dependence from credit facility to finance their operation. Approximately, credit facility at times comes from accounts payable. However, it revealed also that an insufficient record keeping system lessen the ability of the firm to control and assess the proper flow of its working capital. The SMEs also have deficient resources to manage their receivables and no credible credit policy for their enterprises.

VI. RECOMMENDATION

On the basis of the findings and conclusion of the study, the following recommendations are spelled out to address the concerns for the development purposes of the working capital management of SMEs:

Place inside the office vault the cash generated on daily basis. SMEs must place its surplus cash inside the office vault to ensure the safety of its money before having or acting a wise decision-making.

Prepare a cash budget quarterly or annually. Managers or owners must prepare a cash budget to determine their future ability to pay debts as well as expenses. This will also show how cash flows in and out of their business operation and can be used in planning their short- term credit needs.

Formulate an effective credit policy. In crafting credit policy criteria this should include: credit period, cash discounts, credit standards, and collection procedures offered.

- The length of the credit period should not be too long and not too short. Customers normally prefer longer credit periods, so augmenting the period will arouse sales. However, long credit periods extends the cash conversion cycle, hence ties up more capital in receivables, and that is costly. Also, the longer a receivable is outstanding, the higher the probability that the customer will default and the account results as a bad debt.
- The cash discount that the firm offers for paying early should not be too large. Offering discounts has two benefits: first, the discount amounts to a price reduction and lower prices stimulate sales, and second, discounts will cause some customers to pay earlier than they otherwise would, which will shorten the cash conversion cycle. However, discounts mean lower prices, hence lower revenues unless the quantity sold increases by enough to offset the price reduction. The benefits and costs of discounts must be balanced if a rational decision about them is to be made.
- In formulating a credit standard the firm should look at the five C's of credit: character, capacity, capital, conditions and collateral.
- In the collection policy of the firm's past due account there should be a balance between toughness and laxity. Firmness should be present, but excessive pressure can also lead good customers to take their business elsewhere.

Attend to seminars and trainings. Owners or managers of SMEs should avail themselves with the various training programs organized by government and other bodies like Small and Medium Enterprise Development Council (SMEDC) to refine their knowledge in financial management and other related topics in management. This will help advance their trading activities.

Implementation of technology based inventory control practices. Encourage the entrepreneurs to adopt technology in conducting inventories like computer system. The relevance of modern information technology management could be very effective in improving the inventory activities while avoiding the risks of mismanagement in inventories.

Create a re-order policy. Creation of re- order policy for the institutions will stretch the capacity to appeal supply of modest and high quality stocks. An institution of such policy paves the way for businesses to classify and recognize the best sellers of their wanted stocks in the market at peculiar seasons.

Assist entrepreneurs to negotiate with their creditors. A trusted debtor means a lot to the creditors. An on time payments of liabilities and negotiating credit terms is advisable to have a healthy relationship between debtors and creditors.

Record cash transactions and keep books of account. A well maintained bookkeeping system will enable the business for balanced budgeting or financial planning as a means of working to quantify the company's vision, mission, goals and objectives. Proper bookkeeping will provide the owners or managers to formulate the rights objectives and strategies to achieve the company's goals.

Convert to the computerized (MS Office Excel) method of keeping books of account. This method removes many of the paper "books" that are used to record the financial transactions of an entity. Instead, relational database takes place, but still typically enforce the double entry bookkeeping system when you are still practicing the manual or traditional way of keeping the books of account as this has been proven to be the most effective and reliable system.

Properly managing the business' short-term of funds. The business should be able to somehow self-finance itself. This will imply that the business has the ability of being independent when it comes to day-to-day expenses. This could also indicate that the business is earning and capable to survive. However, there are still some remedies and other sources of short-term funds that the business can borrow from. It all depends on how well you manage your short-term finances.

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