SMES CHARACTERISTICS AND WORKING CAPITAL MANAGEMENT AMONG SELECTED SMES IN MBALE AND TORORO DISTRICTS IN EASTERN UGANDA

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ABSTRACT

This paper is an attempt to investigate how the characteristics of SMEs affect working capital management in selected SMEs. The purpose of this paper is to establish the difference in working capital which is statistically significant. The other purpose is to help explain the necessity of firms optimizing their level of working capital management. The result of this study clearly shows significant difference in the extent of working capital management in selected SMEs in Mbale and Tororo districts in eastern Uganda. Difference in the extent of working capital exists according to: Age, status in business is significant, origin of the business, form of ownership, and business sector: Non service was significant while service is not significant and years spent in business show a significant difference.

Key Words: *Characteristics; SMEs; Working Capital Management*

Introduction

Since the 1960s to date, small and medium sized enterprises (SMEs) have been given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic growth, development and stability within several economies. They make-up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the gross domestic products of many countries (OECD 2000).

There has been a noticeable increase in the widespread emergence of SMEs in sub-Saharan Africa. The Global Entrepreneurship Monitor (2012) on South Africa, Uganda, Angola, Ghana and Zambia suggests that the number of small established businesses is high in these countries. The percentage of established owned businesses in selected African countries was the highest in Ghana (40%) and Uganda (27%) in 2010, which are both significantly higher than China and Brazil (under 15%). GEM further observes that SMEs are increasingly being recognized as productive drivers of economic growth and development for African countries. For example: It is estimated that SMEs account for 70% of Ghana's gross domestic product (GDP) and 92% of its businesses, They also make up 91% of formalized businesses in South Africa, 70% of the manufacturing sector in Nigeria, and SMEs not only contribute significantly to the economy but can also serve as an impetus for economic diversification through their development of new and unsaturated sectors of the economy. In addition, innovative and technology-based SMEs can provide an interesting platform for expanding outside of domestic borders, and entering intra-regional and international markets.

In Uganda, a small-scale enterprise is an enterprise or a firm employing less than 5 but with a maximum of 50 employees, with the value of assets, excluding land, building and working capital of less than Uganda Shillings 50 million (US$ 30,000) and the annual turnover of between Uganda Shillings 10-50 million (US$ 6,000-30,000). A Medium sized enterprise is considered a firm, which employs between 50-100 workers. Other characteristics have not been fully developed Kasekende and Opondo, (2003). According to Lindner (2004) the characteristics of a SME reflect not only the economic, but also the cultural and social dimensions of a country. In this study, the characteristics are not based on individual and business profile.

Literature Review

Characteristics of SMEs

Fisher and Reuber (2000) enumerate a number of characteristics of SMEs in developing countries under the broad headings: labour characteristics, sectors of activity, gender of owner and efficiency. Given that most SMEs are one-person businesses, the largest employment category is working proprietors. This group makes up more than half the SME workforce in most developing countries; their families, who tend to be unpaid but active in the enterprise, make up roughly another quarter. The remaining portion of the workforce is split between hired workers and trainees or apprentices. SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Abor and Quartey, 2010).

In terms of activity, they are mostly engaged in retailing, trading, or manufacturing (Fisher and Reuber, 2000). While it is a common perception that the majority of SMEs will fall into the first category, the proportion of SME activity that takes place in the retail sector varies considerably between countries, and between rural and urban regions within countries. Retailing is mostly found in urban regions, while manufacturing can be found in either rural or urban centers.

Females are mostly involved in sole-proprietorship businesses in Ghana which are mainly microenterprises and as such may lack the necessary collateral to qualify for loans (Abor and Biekpe, 2006). Eze et al. (2011) contend that, Younger people are more driven by risk-taking, innovation and achievement compared to their older counterparts, this helps them start their own businesses. McGrath (2002) education is one of the factors that impact positively on growth of firms, those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments. King and McGrath (2002) suggest that with knowledge in business you can obtain the skills and methods needed to launch a new enterprise, take over an existing business, or be a dynamic manager who can make a dramatic difference in the future of a small business. Willemse (2010) indicate that number of SME failures by year 5 vary between 50% and 71%.

Working Capital Management

Myers and Brealey (2000) describe working capital management as the "management of all aspects of both current assets and current liabilities, to minimize the risk of insolvency while maximizing the return on assets. Depending upon the applicability of these concepts to the firm, the composition and quantity of Working Capital may vary from firm to firm (Chandra, 2001). Working capital management is the process of planning and controlling the levels of investment and financing current assets as well as related operations of purchasing and selling (Horne and Wachowicz, 2000). Working capital management is simple and a straightforward concept of ensuring the ability of the organization to fund the difference between the short term assets and short term liabilities (Harris 2005). Myers and Brealey (2000) observe that more businesses fail for luck of cash than for want of profits. Efficient management of working capital is one of the preconditions for the successes of an enterprise. Efficient management of working capital means management of various components of working capital i.e., cash, receivables, inventory and payables in such a way that adequate amount of working capital is maintained for smooth running of the firm and fulfillment of liquidity and profitability.

Cash management is a broad term that refers to the collection, concentration, and disbursement of cash. The goal is to manage the cash balances of an enterprise in such a way as to maximize the availability of cash not invested in fixed assets or inventories and to do so in such a way as to avoid the risk of insolvency (horne and Wacoiwicz, 2006). The prospect of such a dire consequence should compel companies to manage their cash with care (Padachi, 2006). Moreover, efficient cash management means more than just preventing bankruptcy. Management of trade credit is commonly known as Management of Receivables (Longenecker et al, 1997). It makes a successful attempt at keeping a keen eye over almost all outstanding accounts of the firm, hence, enabling a firm to initiate appropriate and timely measure against defaulters as per the guidelines framed by the collection policy of a business (Ward & Sagner, 2003). With regard to payables, the firm is responsible for paying these obligations on a timely basis. Fabozzi & Peterson (2003) observe that the management of payables requires the establishment of internal controls for cash disbursements to ensure that that cash is disbursed only upon proper authorization of management for valid business purposes.

Research Methodology

The study utilized a descriptive comparative, correlational, and cross sectional survey design. Cross sectional was employed, where data was gathered and described from different categories of respondents. A sample size of 301 SMEs were considered and self administered questionnaires were used to collect data for analysis. A Survey was appropriate to elicit information about attitudes that are otherwise difficult to measure using observational techniques. Simple random sampling was employed. The aim of the simple random sampling was to reduce the potential for human bias in the selection of cases to be included in the sample. Thus, simple random sample provides a sample that is highly representative of the population being studied, assuming that there is limited missing data. The Cronbach's alpha coefficient was used to test the reliability of the research instrument, the output statistics was 0.837. The data were analyzed using summary statistics, such as frequency, percents, and means. The null hypotheses were tested using the t-test and analysis of variance.

Research Results

Significant Difference in the Extent of Working Capital Management

The intension was to find out if the extent of working capital management in the selected SMEs significantly differed according to: Gender, status in the business, origin of the business, form of ownership, business sector, and number of years spent in business.

Table 1: Significant Difference in the Extent of Working Capital Management According to: Gender, Status in the Business and Origin of the Business (Level of Significance = 0.05)

Working capital	Gender	Mean	t	Sig.	Interpretation	Decision on H_o
Extent of WC management	Male Female	2.95 3.01	-1.072	.285	No significant difference	Accepted
	Status in business					
Extent of WC management	Owner Employee	2.81 3.14	-6.466	.000	Significant difference	Rejected
	Business Origin					
Extent of WC management	Local Foreign	2.91 3.15	-3.516	.001	Significant difference	Rejected

Findings in Table 1 reveal that there is no significant difference in the extent of working capital management between males and female among SMEs in Mbale and Tororo districts. This suggests that both men and women have the same potential to manage their working capital in SMEs. Shaikh et al. (2004) contend that empowerment of women to develop their role; both in absolute and relative terms, in the major socioeconomic aspects of the country's development and government policy also provide opportunities for women in SMEs business and economic participation as well as participation in education and training. This could suggest why there is no significant between men and women in the extent of managing working capital.

The findings in Table 1 further reveal that there a significant difference in the extent of working capital management between owners and employees among SMEs in the study context with (mean=3.14) for employees more than (Mean=2.81). This therefore suggests that employees in SMEs better manage working capital than owners of SMEs. King (2007) points that lack of management skills is a problem to most small business owners that is very difficult to deal with in most SMEs as the size of the senior management team is necessarily limited, thus areas of weakness could be in finance.

Table 1 still reveals the findings on significant difference in the extent of working capital between local and foreign as basis of origin. The results show that there is significant difference in the extent of working according to origin of SMEs. Small and medium enterprises of foreign origin are better in managing working capital as suggested with the (mean=3.15), as compared to (mean=2.91). MNEs is able to find an organizational system capable of transferring knowhow across units and locations, allowing locally generated knowhow to be used throughout the multinational organization (Sanna-Randaccio and Veugelers, 2003). While Ivarsson and Jonsson (2003) contend that there are two basic motives for foreign firms. These were local market adaptation of technology originally developed by the parent corporations in the home country, and access to technological expertise and exploitation of local comparative advantage. This could possibly support the findings on grounds that SMEs of foreign origin use technology in their business that help in records, communication, and many other areas to help improve management of working capital.

Table 2: Significant Difference in the Extent of Working Capital Management According to Form of Business Ownership, Business Sector, and Number of Years in Business (Level of Significance = 0.05)

Working capital management	Business Form	Mean	F	Sig.	Interpretation	Decision on H_o
Extent of WC management	Sole proprietorship	2.86			Significant difference	Rejected
	Partnership	3.03	9.426	.000		
	limited Company	3.13				
	Business sector				Significant difference	Rejected
	a) Non service					
	Manufacturing	3.21	21.092	.000		
Extent of WC management	Retail	2.77				
	Whole sale	3.10				
	Service sector		1.556	.193	Significant difference	Rejected

Table 2: Continued

	School	3.00				
Extent of WC management	Law firm	3.01				
	Health	2.96				
	Consultancy	2.85				
	Hotels & restaurants	2.75				
	Number of years in business					
	Below 4 years	2.90			Significant difference	Rejected
Extent of WC management	4-7 years	2.89				
	8-11 years	3.04	4.658	.003		
	12 years and above	3.16				

Table 2 shows results of significant difference in the extent of working capital management among SMEs according to form of business ownership. The findings show that there is significant difference (P-value = 0.000<0.05). The means of all the three forms of business ownership show that there is some difference in management of working capital. This suggests that the structure, organization and decisions made concerning working capital differ by form of ownership.

The Table further shows significant difference in the extent of working capital management according to businesses by sector (non service). The results suggest that there is a significant difference in the extent of working capital management among SMEs in Mbale and Tororo districts. The findings agree with Peel et.al (2010) as working capital management undertaken found to differ significantly with respect to small firms in UK. The amount of working capital management undertaken was found to be related to the severity of the problem for individual firms. Therefore, the significant difference suggests the difference in size of SMEs in Mbale and Tororo districts.

The results in Table 2 also show significant difference in the extent of working capital management according to businesses by sector (service). In the services sector, the findings reveal that there is no significant difference in the extent of working capital management (P-value = 0.193>0.05). This no significant difference could be because small and medium service firms are run by less than 5 employees and do not deal in different types of goods unlike the non service sector which showed significant difference.

Results in Table 2 further show significant difference in the extent of working capital management according to Number of years in business. The findings reveal that there is significant difference in the extent of working capital management among SMEs in Mbale and Tororo districts (P-value = 0.03<0.05). The findings show that firms that have existed for more than seven years are better in managing working capital as compared to young firms. Leary and Roberts (2006) identified two effects: a size effect and a maturity effect, affect financing in SMEs and Diamond (1989) showed as mature firms had a good reputation so that they were able to obtain better loan rates compared to their younger firm counterparts. This confirms why firms that have stayed longer in business manage their working capital better than young ones.

Discussion

There is no significant difference in the extent of working capital management between males and female among SMEs in Mbale and Tororo districts. This suggests that both men and women have the same potential in managing working capital. Shaikh et al. (2004) contend that empowerment of women to develop their role, government policy also provide opportunities for women in SMEs business and economic participation as well as participation in education and training. This could be the ideal reasons as to why women have developed their capabilities because of empowerment.

King (2007) points that lack of management skills is a problem to most small business owners that is very difficult to deal with in most SMEs. Results suggest that employees are better in managing working capital compared to owners; this could be true for firms that employ educated staff with managerial skills and knowledge.

Significant difference exists in the extent of working capital between local and foreign as basis of origin. MNEs is able to find an organizational system capable of transferring knowhow across units and locations, allowing locally generated knowhow to be used throughout the multinational organization (Sanna-Randaccio and Veugelers, 2003). While Ivarsson and Jonsson (2003) contend that there are two basic motives for foreign firms. These were local market adaptation of technology originally developed by the parent corporations in the home country, and access to technological expertise and exploitation of local comparative advantage. This could possibly support the findings on grounds that SMEs of foreign origin use technology in their business that help in records, communication, and many other areas to help improve management of working capital.

The results show a significant difference in the extent of working capital management among SMEs according to form of business ownership. The findings agree with Peel et.al (2010) as working capital management undertaken found to differ significantly with respect to small firms in UK. The amount of working capital management undertaken was found to be related to the severity of the problem for individual firms.

Conclusions

There is a significant difference in the extent of working management according to the characteristics in the selected SMEs. The characteristics considered in this may not be comprehensive and complete. However, the results showed significant difference in the extent of working capital management considering the following characteristics; gender and status of those run them (owner or employee), origin (local or foreign), legal status, business sector, and number of years spent in business.

The government and development agencies should organize training programs tailored to create awareness to SMEs owners and employees on management of working capital to ensure success and foreseeable future of SMEs since they are the drivers of economic development in developing countries. This will help to reduce on failure rate and improve the management of working capital. Incentives and tax holidays to partnerships and limited liability firms encourage formation of such firms since results indicated that these firms are better in managing their working capital and survive longer.

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