

Cash Management Challenges and Practices of Small Scale Enterprises in Developing Countries (A Study of District Shahjahanpur)

Abstract

Small-scale enterprises in India contribute immensely to the socioeconomic development. Despite their vital contribution to the economy in terms of creating employment opportunities, most SSEs are faced with a myriad of challenges and collapse within the first few months of operation. Most of these challenges are financial. In an environment where the entrepreneur's survival in a competitive environment depends on their innovative ability, it is important to evaluate the impact of cash management practices on performance of SSEs. This study examined empirically the cash management practices and its effect on the financial performance of SSEs in District Shahjahanpur. However cash shortage is a chronic challenge to these firms, and cash management is very crucial to the survival and growth of small scale enterprises.

Keywords: Cash Management, Small Scale Enterprises

Introduction

Small Scale Enterprises are important to almost all economies in the world, especially to those in developing countries and within that broad category and to those with major employment and income distribution challenges. The small-scale enterprises (SSEs) play an important role in the Indian Economy. Despite their significance, three out of five businesses fail within the first few months of operation due to several challenges. Because of their small size, a simple management mistake is likely to lead to closure of a small enterprise as there is no chance for management to learn from its past mistakes. Lack of planning, improper financing and poor management have been cited as the main causes of failure of small enterprises. Lack of credit has also been identified as one of the most serious constraints facing SSEs thus hindering their development. In addition to these, education is also one of the factors that impact positively on growth of firms. As with many developing countries, there is limited research and scholarly studies about the SSE sector in India.

Cash is used to pay business obligations. Cash management assumes more importance than any other current asset and the major aim is to maintain adequate control over cash position to keep the firm with sufficient liquid and use the excess cash in some profitable way.

Cash is the vital component of the working capital because it keeps a business running. It is the hub around all financial matters centre. Thus, management of cash is crucial for the success of an enterprise. The adequacy of cash and other current assets, together with their efficient handling, virtually determines the survival or extinction of a business concern. Cash is an important current asset for the operations of business. It is the basic input needed to keep the business running on a continuous basis.

The role of Small Scale Enterprises (SSEs) in the world economy has been highly emphasized as the means through which rapid industrialization and other development goals of a nation can be realized. Small sized enterprises (SSEs) form a large part of economy and are regarded as the drivers of socioeconomic development in all countries.

Understanding Cash Management and Performance

Cash management is the movement of funds through financial institutions to optimize liquidity. It is the management of corporate funds to increase interest income earned by maximizing investments and reducing



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interest paid by minimizing borrowings. Cash management uses the knowledge of funds movement through the banking system, coupled with banking services and other financial products, to optimize liquidity. 'Atrill' describes cash management as the scheduled gathering of information about an industries cash flow, its receipts, disbursements, and balances capital. Effective cash management ensures the timely provision of cash resources necessary to support the industries operations. Whether a enterprise is flush with cash or experiencing a shortfall of funds, good cash management is critical to the success of every industry.

Cash Management Challenges of Small Businesses

The following discussion relates to the cash management challenges faced by small scale enterprises.

Lack of Cash Budgeting

Many small businesses emphasize the motto: "cash is king", but they have a very vague estimation of the amount of cash they will have in the next few months. Most of the businesses did not plan their expected cash inflows and cash outflows. This oversight directly affects the potential survival and sustainability of businesses. Nick (2009) noted that those businesses which budgeted for the future at least once a year had only a 36% chance of survival. Those that budgeted once a month for the future had increased their chance of survival to 80%. Nick also highlighted that a great misconception amongst small businesses was that enhanced growth would automatically solve cash flow problems, but this growth could lead to much more cash demands if the businesses granted customer discounts solely to enhance sales.

Barry Worth, a CPA specialist, as cited by Perry (2007), indicated that many small businesses don't know what cash budgets are. Therefore, they don't practice cash forecasting to know when they will experience the peaks and valleys in their business cycles.

No Bank Accounts

Baroncini-Moe (2013) emphasised the necessity for small businesses to have a bank account. The author indicated that many small businesses do not have a bank account. However, a bank account would facilitate the determination of profitability, enhance business professionalism and establish the legitimacy of the business. A bank account will also keep track of the cash inflows and outflows of the business.

Poor Cash Management Practices

Kippers (2004) revealed that small business owners knew their business like nobody else. They put their heart, soul and time into making their business successful. The area in which they lacked expertise was the financial aspect of record keeping. Kippers found that businesses lacked the much needed cash management knowledge to properly control the business money. They desired to have a positive cash balance from the start of business. Unfortunately, they did not know how to go about to achieve this positive balance.

About 60% of the small business owners indicated that their most challenging cash management component was receiving payments from customers. 18% noted that they had great difficulty to manage and move funds and 15% found many challenges with paying off suppliers on time. Once they indicated which component of cash management was challenging, the small business owners were also asked to identify the contributing factors of these challenges. It was noted that slow moving cash through the business was the largest factor driving cash management challenges, especially when accurate estimates could not be made regarding the timing of cash that was owed by and cash that was owed to the business.

Cash Flow Difficulties

Mong (2011:33-34) believed that small business managers focused on profits rather than on cash flows. Fargo (2001:1-2) believed that cash flow difficulties are an on-going concern that one in two small businesses face. Mong also emphasised that, due to the instability of small business customer base, it would be challenging to introduce techniques used in college textbooks and practised by larger enterprises. Moreover, due to the lack of knowledge and resources, it will be difficult to overcome cash flow problems after they are discovered.

The biggest mistake owners make is that they confuse profits of the business with the cash flowing into the business. As soon as businesses are reported to have a positive cash flow balance, they make large purchases and forget about the post-dated cheques issued or the payments needed to be made at a later date. Only then do businesses realise they have insufficient funds to pay for their obligations.

Obtaining a Loan

The majority of small business ventures would require some external funding at some point in the business. The very first organisations that many would approach are banks. According to Mr Valaven, the Commissioner of Industries, as cited by Business Line (2011), many small businesses are at their breaking point and risk shutting down due to the lack of funding. He also emphasised that the financing institutions have tightened up the restrictions on applications for a loan which affect the majority of the small scale units.

More than 60% of the businesses that were surveyed indicated that securing a loan was challenging. Failure to secure a loan restricted their growth. The survey also revealed that 68% of the small business owners transfer their personal savings into the business.

Businesses also encounter difficulties in obtaining money for improvement or expansion. The irony is that it is simpler to obtain a loan when the business has money rather than when the business doesn't have the money and really needs the loan to fund the business. Many small newly-formed businesses don't qualify for loans which impact on the availability of cash to the business. They struggle financially without the assistance from a lender. Consequently, their businesses are unable to

increase the cash level to enhance and expand the business.

Debtors' Payments

Debt collection is deemed to be one of the most challenging aspects for small businesses. According to Charlwood (2011), 25% of small businesses experience cash flow problems. The majority of small businesses have struggled to meet their payments because they are dealing with debtors that are not paying back their accounts. Businesses are taking longer than 90 days waiting for payments from debtors. The researcher also found that 40% of the affected businesses offer discounts for early payments but this incentive was an ineffective measure as debtors did not use this opportunity.

Creditors' Payments

According to Perry (2007), many suppliers offer payment terms of 30, 60 or even 90 days to consumers. Many businesses tend to repay their accounts as quickly as possible and do not use the benefit of extending terms over 30 to 90 days. Two-thirds of small businesses are taking longer than 30 days to pay their bills.

Results and Discussion

As established by the going-concern concept, businesses are established to operate into the foreseeable future. Survival, growth and expansion are key ingredients to ensure this. In the early years business are seen to be very crucial to its survival and growth. These new businesses commonly called mushroom-firms and are faced with surmountable business challenges that require high degree of experience and sacrifices. Business enterprises are able to survive based on the business experience of their owners.

The Level of Knowledge in Cash Management Practices

Improving cash management practices is one of the most important issues of the financial world. The table 1 below shows owner of SSEs knowledge in cash management practices.

Table 1

Cash Management Practice	Yes	Percent (%)	No	Percent (%)	Total
Preparation of Cash Budget	5	31.25	11	68.75	16
Operating Bank Account	11	68.75	5	31.25	16
Keeping track of cash receipts	6	37.50	10	62.50	16
Keeping track of cash payments	6	37.50	10	62.50	16
Keeping proper books of accounts	9	56.25	7	43.75	16

The results of the descriptive statistics for Knowledge in Cash Management Practices are reported in Table (1). The majority of the respondents indicated they did not have Knowledge on Cash

budget, Keeping track of Cash receipts, Payments. Most respondents of the small-scale enterprises under investigation had no knowledge about how to implement sound cash management practices.

Types of Bank Account kept by Small Scale Industries

Table (2) presents the responses of owner managers of the SSEs, regarding the type of bank Accounts, the most widely used was current Accounts, while saving accounts was the least used. The result shows that most SSEs are beginning to appreciate the importance of having a business account.

Table 2

Type of Account	Frequency	Percent (%)
Savings	3	18.75
Current	8	50.00
Current and Saving	3	18.75
No Response	2	12.50
Total	16	100

Records kept on Cash Transaction

Table (3) shows the documents on which records of cash transactions of SSEs are kept. When the respondents were asked to indicate the various records they kept on cash transactions, Bank Statement records were the most significant (43.75%) as depicted in Table (3). Other forms of records kept on cash transactions with their respective responses included cash book (25%), and cheque (12.50%). 6.25% and 12.50% respectively of respondents indicated they also keep records of their cash transactions by way of payment voucher and note book.

Table 3

Type of Records	Frequency	Percent (%)
Cash Book	4	25
Bank Statement	7	43.75
Cheque	2	12.50
Payment Voucher	1	6.25
Note Book	2	12.50
Total	16	100

Conclusion

It is obvious from the study that cash management is an important aspect of management function and its importance cannot be over-emphasized. When industries understand and implement the concept of efficient cash management, business success will be achieved. However, shortage or bad management of cash may result in loss of cash discount, loss of reputation due to non-payment of obligation on due dates and insolvency which may result in operational shut down of the enterprise.

This study has revealed that the SSEs owner have not sufficient Knowledge in Cash Management Practices, and did not have kept track of their cash payments & receipt. Seldom prepares the cash budget, and operated bank accounts widely in current accounts. Implementation of a good cash management system will ensure better control of

financial risk, increase the opportunity for profit, strengthen the enterprise's balance sheet, ensure increased confidence in the company and improve operational efficiency. Cash management is vitally important as it is the key factor to any successful industry.

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