

Working Capital Management Practices in Small Businesses in Victoria

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Abstract : In this study, we explored the current working capital management practices as applied in small businesses in Victoria, filling an existing theoretical and empirical gap in literature in general and in Australia in particular. Amidst the current global competitive and dynamic environment, the short term insolvency of small businesses is very critical for the long run survival. A firm's short-term insolvency is dependent on the availability of sufficient working capital for feeding day to day operational activities. Therefore, given the reliance for short-term funding by small businesses, it has been recognized that the efficient management of working capital is crucial in respect of the prosperity and survival of such firms. Against this background, this research was an attempt to understand the current working capital management strategies and practices used by the small scale businesses. To this end, we conducted an internet survey among 220 small businesses operating in Victoria, Australia. The survey results suggest that the majority of respondents are owner-manager (73%) and male (68%). Respondents participated in this survey mostly have a degree (46%). About a half of respondents are more than 50 years old. Most of respondents (64%) have business management experience more than ten years. Similarly, majority of them (63%) had experience in the area of their current business. Types of business of the respondents are: Private limited company (41%), sole proprietorship (37%), and partnership (15%). In addition, majority of the firms are service companies (63%), followed by retail companies (25%), and manufacturing (17%). Size of companies of this survey varies, 32% of them have annual sales \$100,000 or under, while 22% of them have revenue more than \$1,000,000 every year. In regards to the total assets, majority of respondents (43%) have total assets \$100,000 or less while 20% of respondents have total assets more than \$1,000,000. In regards to WCMPs, results indicate that almost 70% of respondents mentioned that they are responsible for managing their business working capital. The survey shows that majority of respondents (65.5%) use their business experience to identify the level of investment in working capital, compared to 22% of respondents who seek advice from professionals. The other 10% of respondents, however, follow industry practice to identify the level of working capital. The survey also shows that more than a half of respondents maintain good liquidity financial position for their business by having accounts payable less than accounts receivable. This study finds that majority of small business companies in western area of Victoria have a WCM policy but only about 8 % of them have a formal policy. Majority of the businesses (52.7%) have an informal policy while 39.5% have no policy. Of those who have a policy, 44% described their working capital management policies as a compromise policy while 35% described their policy as a conservative policy. Only 6% of respondents apply aggressive policy. Overall the results indicate that the small businesses pay less attention into the management of working capital of their business despite its significance in the successful operation of the business. This approach may be adopted during favourable economic times. However, during relatively turbulent economic conditions, such an approach could lead to greater financial difficulties i.e. short-term financial insolvency.

Keywords : small business, working capital management, Australia, sufficient, financial insolvency

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