

The Working Capital Management Practices of Small and Medium Enterprises (SMEs) in Sri Lanka

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Small and Medium Enterprises (SMEs) play an important role in any economy as they are capable of generating employments, promoting the growth of Gross Domestic Product (GDP), embarking innovations and stimulating all other economic activities. This sector is said to be the backbone of all developed and developing nations. Therefore the development of SME sector is paramount important for any country irrespective of their level of development.

The purpose of the study is to explore the Working Capital Management (WCM) practices adopted by Sri Lankan Small and Medium Enterprises (SMEs) and to study the usage of such practices in prevailing information systems and financial reporting practices.

The sample of the study is 60 SMEs which are operating their businesses in the manufacturing sector and limited to the western province in Sri Lanka. The study focused on the main working capital components such as cash, trade receivable and inventory management of SMEs. A questionnaire was used to explore the adoption of cash, receivable and inventory management practices of SMEs. Descriptive statistics were used to analyze the data in order to examine the said purpose of the study.

The findings revealed that recording of cash, inventory and accounts receivable practices of SMEs were not conducted in a formal manner and used to continue WCM practices in an ad-hoc basis. Findings of receivable management practices identified that selling products on credit basis is a common trend in Sri Lankan SMEs and the length of accounts receivable and the credit term policy depends on the owner's prior experience and perception on customers. Findings on inventory management practices and level of cash in hand demonstrated that owner/manager's experience found to be more important in determining the inventory levels, the amount of cash in hand and preparation of inventory and cash budgets. The above findings are consistent with the empirical results of the literature.

Accordingly the ad-hoc working capital management practices of SMEs' leads to the excessive level of working capital resulting low level of profitability or low level of working capital exposing problems that disturb day to day operations of SMEs. In overall study validated that the adoption of working capital management practices among Sri Lankan SMEs is low as a result of lack of knowledge and the negative perception of cost benefit analysis on implementing a good WCM practices. Thus it is important to provide platform for training SME owners on how to adopt and implement WCM practices to ensure long term survival of SMEs in Sri Lanka.

Key words: Small and Medium Enterprises, Working Capital Management – Receivable, Inventory and Cash management practices, Sri Lanka

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