

FINANCIAL MANAGEMENT OF TIRES RETAIL AND RESTAURANT BUSINESS IN GREATER JAKARTA

Sung Suk KIM, Jacob Donald TAN, Rita JULIANA & John Tampil PURBA

Universitas Pelita Harapan, Karawaci, Indonesia

*rita.juliana@uph.edu

Abstract: This study aims to explore the financial management practices of small-and-medium-enterprises (SMEs) in the Greater Jakarta (Jabodetabek). We investigate into 3 SME cases by conducting the semi-structured interviews with the owner-managers and using direct observations to know the practices of financial management of SMEs. Through the research, we have found six propositions related to the practice of short-term financial management. They apply bootstraps to ensure availability of working capital. They set aside cash reserves from retained earnings and minimize loans from financial institutions. They have the computerized system to track receivables facilitating working capital needs. They keep their inventory control efficient to manage working capital. They screen customers using transactional records and reputations to minimize the risk of bad debts.

Keywords: working capital management, small-and-medium-enterprises, bootstrapping

1. Introduction

This study aims to investigate how SMEs in Greater Jakarta, especially the retail and the restaurant businesses, manage their finances to establish their longevity. Referring to the Government of Indonesia program for the Short, Medium and Long Term where Small and Medium Enterprises are abbreviated as SMEs become one of the backbones for sustaining the macroeconomy for the nation and state. Such things also happen in other countries in this part of the world, both those who are referred to as developed and developing countries. Economists also agree with this, as Yoshino and Wignaraja (2015) say that the contribution of SMEs to Indonesia's GDP is 57.8% and accommodates around 92.2% of the workforce. However, the rate of failures for entrepreneurs is very high. According to Bloomberg (Forbes.com, Sep 22, 2013), eight new businesses out of ten experienced failure within 18 months of the start of the new business. This phenomenon not only resulted in the problem of increasing unemployment of workers but also resulted in inefficiencies in the limited use of materials in the economic field.

Of the many studies that have been conducted, Hall and Young (1991) reported that 86.6% of the 247 reasons for which a company was liquidated were related to a failure in corporate financial management. It must be admitted that SMEs experience these problems more easily because they are more vulnerable to being affected by seasonal sales cycle fluctuations and the risk of losing their main clients/customers (Colot and Michel, 1996) than large companies tend to operate in relatively good environments. However, Hendrik et al., (2015) argued that not only their environment was lacking but also a lack of skills in financial management. Cassar and Holmes (2013) indicate that the difference between SMEs and large companies is the ability to make financial decisions, due to the lack of management skills and limited knowledge, thus resulting in the cause of financial failure rather than the lack of operations or skills of human resources. Mazzarol et al., (2015) show that the financial management problems faced by SMEs are more significant and more severe than large companies.

Although financial management is an essential element in overall business management, many SME entrepreneurs do not actively participate in financial management. Besides being busy because they are involved in other managerial functions, this happens mainly because they do not have sufficient knowledge in recording transactions, preparing and analyzing financial statements (Irena, 2013;

Uwonda et al., 2013). Many SMEs also do not have accounting and financial systems available like those of large companies, as well as professional staff capable of managing the system. Usually, the owner-manager is required to carry out financial management functions, often but not always, with the support of bookkeepers and accountants. Most of them tend to participate in financial management informally or ad hoc as many other countries do regarding developing and using formal accounting systems, credit management, and cash flow monitoring (Orobia et al., 2013; Mungal and Garbharran, 2014), indicating the pattern found throughout the world, both in developed and developing countries (Abanis et al., 2013; Amoako, 2013; Uwonda., Et al, 2013).

Therefore, much research is done to find out specific aspects of financial management practices from various countries and specific industries. The arguments presented by Peel and Wilson (1996), García-Teruel and Martínez-Solano (2007), Thalassinou and Curtis (2005), and Enqvist et al. (2014) state that they focus on the practice of working capital management. Ebben and Johnson (2011) and García-Teruel and Martínez-Solano (2010) focus on more specific aspects of managing cash conversion cycle and trade credit at SMEs. Also, Cowling & Westhead (1996) and Hamilton and Fox (1998), Michaelas and Chittenden (1999), and Newman et al., (2012) focus on funding for SMEs.

Based on the financial management practices they found, they proposed methods or proposals to improve financial management practices in contexts that fit the needs of the field. This is exemplified by Irena (2013) proposing specific stages for cycle conversion cycle and the linkages of working capital management in financial statements, then sound principles for financial management for SMEs. However, it is still difficult to find financial management practices for Indonesian SMEs. Therefore, it is necessary to 1) find financial management practices for SMEs, 2) it is known that SME entrepreneurs manage their company finances in a specific way, and 3) proposals to improve financial management practices for SMEs.

There are two reasons for the importance of conducting this research. First, the limited research identifies the financial management practices of SME entrepreneurs in Indonesia. Second, the theory aims to improve financial management practices under the Indonesian SME context. The proposal will be used to develop modules that will be used to improve financial management practices for owner-managers or SMEs.

Most studies on SMEs or owner-managers are carried out in Europe and parts of Africa (Abdulsaleh and Worthington, 2013; Jindrichovska, 2013). The results of previous studies indicate that financial management practices are influenced by conditions in each country, thus denoting that financial management practices need to be known in the Asian context, especially in Indonesia.

2. Working Capital Management in SMEs

The two issues that are most considered by financial management in SMEs are the cash flow cycle and working capital management (Mazzarol et al. 2015). Then many studies pay attention to the working capital management system in a whole or specific aspect of working capital management. Jindrichovska (2013) examined working capital and liquidity management including discussions of the company's cash conversion cycle. With Uganda SME data, Orobia et al. (2013) found that the majority of owner-managers used only informal planning methods with forecasting cash flows, and signed verbal contracts with their known customers. Most informal financial records and much-stored information are in their memory.

According to Zong (2014), the survival of a company is strongly influenced by the company's cash flow based on case studies. Whereas there is also a focus on assessing the impact of the cycle of cash conversion and working capital management on corporate profitability (Yazdanfar and Ohman, 2014; Enqvist, Graham, and Nikkinen, 2014; Taurigana and Afrifa, 2013). Besides, there are also studies that focus on one account item in working capital management. Kuickova and Soucek (2013) focus on debtor management systems. They found that most of the SMEs in Czech have quite a good debtor management system, but the system is still not maximal.

Small companies find it challenging to take bank loans for some reasons such as limited collateral, difficulties in proving creditworthiness, low cash flow, high-risk premiums, limited relationships with banks and high transaction costs (IFC, 2009). Many SME owners regard debt financing as an "excessive" risk because of bank requirements for collateral; therefore they tend to

avoid using debt (Hankinson, 2000). They feel that access to banks is not easy because they are served poorly by services and the bank's administration process is too complicated (Hankinson et al., 1997; Nakamura, 1999). In developing countries, SMEs choose to use informal funding sources rather than external funds such as bank loans (Beck et al., 2008).

3. Research Benefits

Therefore, it was found that the importance of financial management in the survival of SMEs and lack of knowledge from SME managers made both government and private sector provide counseling functions for them. The effectiveness of counseling services for them is also carried out. Solomon et al. (2013) found that a positive correlation between the number of hours of counseling that the owner-manager received and the probability of business survival and financial performance of the company. In addition, Bayrakdaroglu and San (2014) found financial literacy training in SME-owner managers would improve financial decision-making skills. Financial literacy skills can also help prevent SME managers from conducting business practices that result in financial losses. The importance of financial knowledge for SME managers can improve SME financial performance. In other words, the level of financial literacy of SME owner-managers can provide efficiency in improving the economy and growth of the company.

4. Methodology

This study took a duration of approximately 12 months with the intention to delve into the culture and operations of the three case studies. Identification to the understanding and practices of financial management was carried out using interpretive approach. Access to the owner-managers is critical, but more importantly is their willingness to share openly about the firms' financial flow, as it is a sensitive issue that requires trust between the respondent and the interviewer. Thus by means of purposive sampling, this study proceeded with semi-structured interviews with 3 SME owner-managers in the Greater Jakarta area (Table 1): ANG, MTPLN, and YBA. Furthermore, direct observation in ANG and indirect observations in MTPLN and YBA had also been conducted to take note of their management habits, particularly when involving payments.

Inductive results through exploring the case studies will be used to build a theory (Glaser & Strauss, 1967; Miles, Huberman, & Saldana, 2013), in addition to investigating the habits of owner-managers who are actively involved in managing to maintain business. Case study research is "an empirical inquiry that investigates contemporary phenomena in depth and real-life contexts, especially when the boundaries between phenomena and context are not clearly proven" (Yin, 2009, p. 18). It answers the question of how, who and why contemporary phenomena, and researchers have little control over events (Farquhar, 2012, p. 17).

Table 1: Case Profile

CASE	TYPE of BUSINESS	OWNER-MANAGER
ANG	Tires Retail, Family Business	Male, Age 30-35
MTPLN	Tires Retail, Family Business	Female, Age 35-40
YBA	Restaurant, Partnership	Male, 25-30

Thus the new implications can incite researchers to provide advice to improve the sustainability of SMEs and also for future research. The results obtained from the inductive approach through in-depth interviews will then be described so that financial management practices for SMEs can be identified.

5. Findings and Discussions

5.1. Proposition 1 (P1): Applying bootstraps to ensure the availability of working capital

This proposition is a strategy undertaken to manage working capital in SMEs. Firm owners can attempt to negotiate with suppliers in terms of extending the duration of payment liabilities while receiving the stocks first. On the other hand, in order to attract and retain consumers, firm owners can offer them payment liabilities while making sure that firm owners have sufficient funds to pay off the suppliers in due time. In the overall system of bootstrapping, the duration of credit term from suppliers must provide longer duration than the credit term offered to consumers. In this case, the firm owners are not required to prepare any funds for cost of goods and thus relieved of the burden implied to working capital. In the restaurant business like YBA, bootstrapping is not applicable as suppliers are paid directly by cash, while customers also pay directly after their meals.

Case ANG

Yes, so our customers owe us, we owe our suppliers, and all we have to do is manage the time span between our customer's installment and our installment.

[...] collecting debt is the hardest one.

[...] we never prepare cash, the supplier always let us owe them.

Case MTPLN

We generally start ordering from our supplier in the 2nd month of the year as we will be invoiced in the 5th month where our sales usually are increasing. If we ordered in the 1st month of the year, we would not be able to pay our debt off due to poor sales within that month.

5.2. Proposition 2 (P2): Setting aside cash reserve from retained earning minimize borrowing from financial institutions

Firm owners plan to accumulate cash reserves set aside for unforeseeable situations in their businesses, such as uncollectable receivables occurring while remunerations have to be made at the end of the month. Instead of direct borrowing from financial institutions or pursuing bank overdrafts, firm owners tend to prefer using cash reserves from retained earnings.

Case ANG

We circulate our own money around even from [the other business] to cover temporarily.

Case MTPLN

We tried not to borrow any money from the bank for business purposes. [...]. We do not typically have this problem on a daily basis, and we only use reserve when it is needed.

Case YBA

We use our own money to pay for the ingredients supplies when they arrive.

5.3. Proposition 3 (P3): Computerizing the firm's system to keep track of receivables, or/and inventory, or/and customers' preferences that impact the working capital

Tracing receivables is key in increasing the liquidity of ANG. An average of 30-days receivable turnover is favorable for the business to operate, to the extent of the liabilities to be paid to the suppliers. The inability to go after debtors to collect the receivables will obstruct the working capital to even pay for the salaries at the end of the month. The owner-manager of MTPLN had to be approached the second time to confirm this proposition, but she is using the computer system to track inventories only. Furthermore, manual inventory checking every week must still be implemented to compare with the system's outcomes. The computer system in YBA is used primarily for financial reporting, but most importantly utilized for personal preferences of each individual customer.

Case ANG

The system works like this, if it is due, the system will notify us and will stay there if the company has not paid yet until we close the account in our system.

The human error is only about 5% today, which is considered small ever since I took over the company.

It automatically calculates how much the profit is.

MTPLN

When my dad was still alive, we used to have a computer system to track receivables and customers' preferences, but it was not significantly effective. However, there is a system still for inventory control.

YBA

All the transaction data are entered into the financial system, and financial statements can be extracted from it.

For example, we offer to the specific customer, "Don't you want to drink [this] today?"

Indians like water that is extremely hot, so we serve them specifically.

If some particular dishes are not selling well, we can track them down from the financial report.

5.4. Proposition 4 (P4): Controlling inventory contributes to the efficiency of working capital

Inventory control is usually used to manage the availability of the stocks demanded by customers. In the event a particular stock is below a determined quantity, the computerized system can trigger an alert notice to business owners. Moreover, inventory control is executed by stocking the goods that are highly saleable and reduce stocking of goods that are not saleable in the marketplace. In Indonesia, firms could be increasing the stockpile three to four months before Ramadan season, as the trend of stock shortages increase in demand that eventually leads to increase in prices will occur nearing to the

season. Hence, business owners are prepared for this trend each year. In the food industry, however, the stock of the food is replenished once a week to ensure the freshness of the food.

Case ANG

[...] so in our computer, we make a system named " Limit Alert." For example, let's say the product goes out of the stock more often, We will limit that our office has to have a minimum quantity for that particular product.

Because from the graphic chart we can know what goods that we need to order.

Yes, around 60%.

For unattractive product types, we search other people who want to buy with discounted price.

Case MTPLN

We started stocking up four months before Lebaran because closer to the date, suppliers could run out of stock.

We are not concerned if we have more local stock as their sale is always great. However, with imported stock, we need to be more careful when looking at the marketplace.

Case YBA

Food stock comes once a week, and we try to finish it in a week.

5.5. Proposition 5 (P5): Setting coherent firm governance to safeguard against fraudulence and to ensure payments by customers

Working capital management can be enclosed to the family members or extended family in terms of handling suppliers' network and consumers' receivable receipts. In other words, non-family members are not allowed to hold the key to the network of suppliers and access to the customers of the business, lest they will use it for their gains. The critical essence of this relationship is trust within the family walls that minimize the risk in managing working capital. In YBA – the only non-family business – makes sure all the transactions in the supply chain are dealt with cash, but one of the business partners strictly manage it. The inventory is also only accessible by one trusted employee.

Case ANG

Because all the receipts will be either with my dad, the boss, or with me, so we do not let the staffs have it because if one of it is lost, let us say it is a hundred million rupiah value, then we will lose that hundreds of millions.

Because some companies are large and small, so if the company is large, we give them a higher limit because they are going to need it. Example, the buyer every month 100 million, we give them limit around 150 million. Higher than that, we should be careful or pay attention more.

Employees' access is restricted because if we let them do it, they can make their own companies from our customer channel.

It is better if the working capital flows quicker because then we can pay our debt. Even if we take some more products, we can pay our debt.

We already programmed the financial report, so we need to click some stuff, and we do not show it to the employers.

Case MTPLN

Depending on where the invoices go. I usually deal with most of the tires vendors, while a consultant deals with larger firms and government agencies.

We keep any cash flow personal.

Case YBA

Our customers all pay by cash.

One of the partners, who is in charge of the building facility, takes responsibility for the restaurant's finance.

Only one person has access to the inventory room and prepares all one time in the morning.

5.6. *Proposition 6 (P6): Screening customers of their credit history and reputation minimizes the risk of uncollectible accounts receivables*

Screening customers to allow them to allow or decline them to credit is key to working capital management. Customers in this definition can be referred to firms as well, as they are experiencing stock shortage and need to buy from the neighboring stores. Customers with good credit records may be allowed to credit more frequently like for instance, the customers buy today and pay tomorrow. In restaurant business like YBA, however, the receivables may not be an obstacle as customer pay directly after their meals.

Case ANG

Some of the cases are people (customers) cheated, and some other cases are our employees are bad at finding customers.

Example, if we already sent the stocks, the buyer said, "I will pay when I receive the stocks." However, when they got the stocks, they left.

Case MTPLN

But our most substantial income was from the government. For the meantime, the government, the mayor, city officers, governors, marine, farming, and forestry department, [state university]

5.7. *Summary*

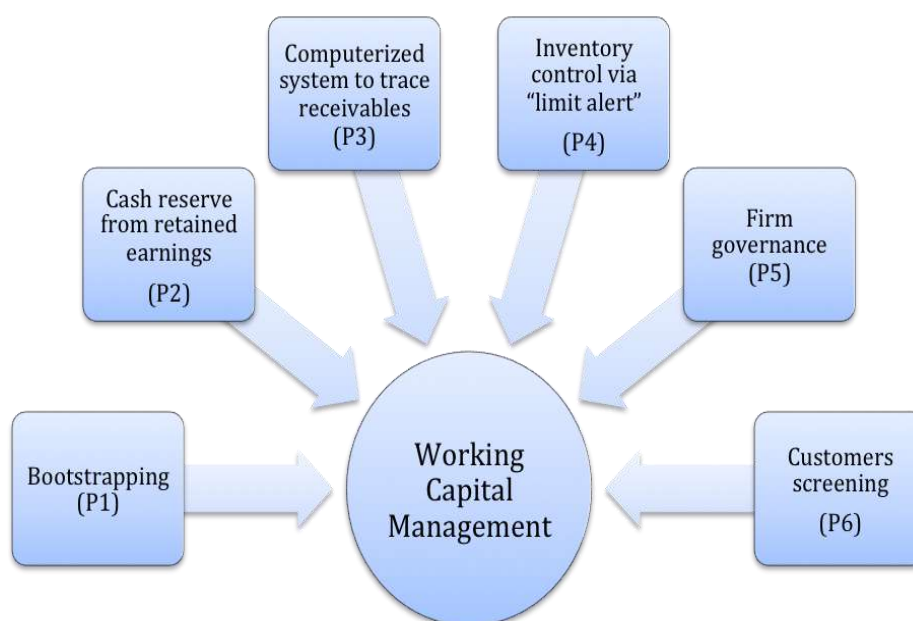


Figure 1. Theory of SME's Working Capital Management

Based on Fig. 1, the six propositions could be exist simultaneously or at least just one of them to achieve a sustainable working capital management. However, based on observation of the three cases, firm governance is the critical cornerstone of the theory. It sets the culture for the other five propositions to occur, and this is particularly evident in the two family business cases such as ANG and MTPLN. Their family values influence their family cultures, which are subsequently transferred to the business cultures. Then the repetitive guidance and implementation of managing the working capital will provide the skills and habits for the individual employee, as well as routines and capabilities for the firm (e.g. Winter, 2016). In other words, firm governance draws all other attributes into functions.

6. Conclusion

Working capital management is one of the crucial skills and knowledge for entrepreneurs, especially in SMEs, to acquire and develop to ascertain the sustainability of the firms. A number of different attributes to working capital management are shown in Figure 1. However, the application of each attribute has to be different depending on whether it is a family business or the kind of industry the business is operating. Overall, the more attributes an SME owner-manager can implement in the business, the more efficient and sustainable the firm.

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