Analysis of The Situation of The Working Capital Administration in MSMES of the Commercial Sector in Mexico

Itzel Monserrat Pérez Hernández [1] • Karla González Hidalgo [2] • Elizabeth Montiel Huerta [2]

[1] Administrative Engineering Department, Technological Institute of Apizaco, Apizaco, Tlaxcala, México
[2] Division of Graduate Studies and Research, Technological Institute of Apizaco, Apizaco, Tlaxcala, México
m.itzel7@hotmail.com

Abstract. Working capital is an important part within the administration of SMEs, it represents current assets and short-term liabilities which are essential for the daily operation of the company. For this reason, it is necessary for administrators of MSMEs to know what this term refers to and why they should have proper management of it. The purpose of this article is to publicize the situation of MSMEs in the commercial sector, as well as the importance of working capital in them. A documentary investigation obtained from secondary sources, such as books and scientific articles, was carried out. From this, the theoretical foundations were reviewed, as well as the main causes of failure of MSMEs. In conclusion, the life expectancy of SMEs in the commercial sector is very low due to various factors, among which is their poor administration of working capital, for which reason proper management of this item is important in order to obtain economic resources. necessary to solve the daily operations of companies.

To cite this article
[Hernández, I. M. P., Hidalgo, K. G. & Huerta, E. M. (2020). Analysis of The Situation of The Working Capital Administration in MSMES of the Commercial Sector in Mexico. *The Journal of Middle East and North Africa Sciences*, 6(08), 1-6]. (P-ISSN 2412- 9763) - (e-ISSN 2412-8937). www.jomenas.org. **1**

Keywords: Working capital, administration, MSMEs.

1. Introduction:

Micro, small and medium-sized enterprises (MSMEs) are of great importance to the country's economy, because they are relevant in generating employment, as well as in the number of existing economic units, representing 97.6% of the total number of companies a national level (INEGI; BANCOMEXT; INADEM, 2016).

According to the National Institute of Statistics and Geophraphy (INEGI, 2014), MSMEs are classified into three main business economic sectors: commerce, services and manufacturing, of which commerce is the most predominant, occupying 56.5% of companies and 48.2% of the country's employed personnel. But, just as trade is the most dominant, it is also the most volatile, consequently, companies in this sector have a lower life expectancy compared to that of the service and manufacturing sectors, with an average of 6.9 years of agreement. with data from INEGI (2014).

This low life expectancy presented by MSMEs is due to various factors, from internal aspects such as the lack of experience and training of entrepreneurs to external aspects such as the absence of policies in accordance with the reality of this type of company, for which reason, The most important problems are: the inadequate articulation of the Mexican economic system, which favors large companies; administrative corruption of public sector officials, lack or lack of financing, inappropriate infrastructure, lack of technological resources, almost no application of adequate planning systems, unfair competition, globalization, among others (Red PyMES-Cumex, 2010).

Regarding the financial question, companies regularly present various problems that are difficult for them to manage, such as facing financial costs, risk, low profitability, conflicts to finance themselves and permanent resources, among others; Likewise, it should be taken into account that the future performance of the company largely depends on decisions in credit, collection and inventory policies, which correspond to the daily activity of companies (Nava, 2009). Within the business financial aspect, working capital intervenes, which is one of the resources required for a company to operate, its optimal administration provides a margin of safety, since it will have the ability to self-generate cash to finance the daily operations of the company and, in turn, contributes to the generation of value, mitigating risks of falling into financial problems. The inadequate management of working capital leads to the possibility of presenting financial problems that result in the mortality of MSMEs in the first years of their existence (García, Galarza, & Altamirano, 2017).

In addition, Durán (2010) argues that poor management of working capital causes problems for MSMEs to access financing, since they do not have a financial structure that confers solidity and sufficient liquidity to meet the obligations generated by a loan. For this reason, it is important that attention be paid to the working capital of MSMEs, so that they obtain the necessary resources for their daily operations and avoid inadequate management, which leads to financial problems that they cannot bear.

2. Methodology:

This research is descriptive and documentary-type, based on bibliographic reviews obtained from secondary information sources such as books and scientific articles, thereby obtaining the theoretical foundations about what is working capital, and the accounts that intervene in the same. Similarly, data were obtained on the classification of companies in the country, as well as the number of companies by sector. Likewise, search engines such as Google Scholar, Redalyc and Dialnet were consulted, and for statistical data the National Institute of Geography and Statistics (INEGI).

2.1. Working capital

The financial area of a company encompasses several items among which is working capital, which has become a highly relevant part of the business activities, since it can cover short, medium obligations long term. It includes the main current assets accounts, which are: cash, inventories and accounts receivable, as well as short-term liabilities.

Working capital is defined as the investment of a company in short-term assets, such as cash, inventories and accounts receivable, short and long-term liabilities, this is the main basis of any organization, as it is a fundamental part of the financial area. to obtain the necessary resource to finance the daily activities of companies (Besley & Brigham, 2009).

In addition to the above, the administration of working capital is highly relevant for companies, since it includes resources that allow them to maintain the usual course of business, the good administration of this allows them to have the necessary liquidity to cover short-term obligations , as well as representing the efficient result of the cash conversion cycle, special attention must be paid to these accounts because they determine the survival of companies (García, Galarza, & Altamirano, 2017).

The investment made by companies in current assets represents a significant percentage, even more if it is a distribution company, for this reason having excessive levels of this asset can contribute significantly to a company not obtaining the expected return or is below normal, however, when you have very little current assets, it can lead to losses and problems to operate normally (Van Horne & Wachowicz, 2010).

Therefore, the correct management of working capital helps the success of a company and must be conducted between its balance and its performance, the level of liquidity is a central aspect, since too much liquidity results in the underutilization of assets used to support sales and is the cause of low asset turnover and lower profitability; likewise, it is particularly important for small or growing companies, because they cannot avoid investing cash, accounts receivable and inventories, as well as limited access to long-term capital markets (Morales, Morales, & Alcocer, 2014).

Finally, the management of labor capital focuses on the decisions that organizations must make regarding the level of cash needed to be able to fulfill their obligations generated by the production and sale cycles of products, as well as the levels that must be met. keep accounts receivable, inventories and credits to be able to finance their short-term financial and operating cycles. For this reason, it focuses on the study of: cash level, accounts receivable, inventories and short-term liabilities (Morales, Morales, & Alcocer, 2014).

2.2. Cash

Cash is an account that is part of the working capital and current assets of companies and refers to the liquid money available to them to be able to cover their short-term obligations, mainly when paying suppliers.

Cash refers to the funds that a company keeps and can use immediately, which includes the amount that is in your checking account, as well as the amount of real coins and notes that it has, this is an idle asset that it does not generate profits but is used to pay bills and other expenses (Besley & Brigham, 2009).

The main source of income for companies' internal cash flow is that which comes from cash sales and the collection of accounts receivable; The cash inflow is regularly on a regular basis, although it also receives a large part of the cash from sales at the beginning of each month or in particular seasons, according to the company's operating cycle (Morales, Morales, & Alcocer, 2014).

For good cash management, it is essential to determine the minimum balance that must be maintained, which will depend on factors such as the opportunity cost, the incompatibility between the dates of entry and exit of money, the security of collection and ease to get short-term financing (Ochoa, 2002).

It is important to take into account the cash cycle of a company, since you can have an approximation of the time it takes to recover the cash invested in your daily operations, this cycle is different depending on the type of sector of the company, for In the case of a commercial, this process begins from the purchase of inventory, sales, accounts receivable until cash is recovered, this cycle can be seen in Figure 1 (Johnson & Melicher 2007).

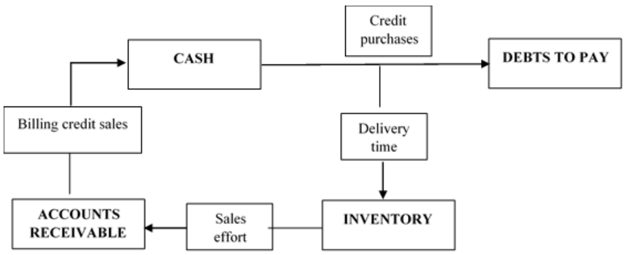


Figure 1. Cash Flow cycle.
Source: Johnson & Melicher, (2007).

It is important that MSMEs consider their cash conversion cycle in order to determine the time it takes to recover their cash. In the same way, there are some models that help the administration of cash, these depend on the company and the objectives planned with the cash, according to the author Gámez, Banda, & Tirado (2004) are:

- William Baumol Models: This model looks for the minimum total cost in cash management considering that the cash inflow is instantaneous and periodic, a constant cash outflow and knowledge of cash flows.
- William Beranek model: Consider that cash flows occur at a constant rate and exits at once. It considers the optimal investment between cash and marketable securities.
- Stone model: Analyze the cash flow forecast to make decisions. The objective is to regulate the level of liquidity around an optimal level.

2.3. Inventory

Inventory is another account that integrates working capital, it refers to the relationship of inventories in an entity in which it is expressed in quantity of articles, their specification, the price per unit and the amount. Initial inventory refers to items that exist at the beginning of a financial year and final inventory to those held at the end of a period (Morales, Morales, & Alcocer 2014).

The decisions regarding the investment of inventories will depend on the needs of the sales area, since these investments represent a considerable percentage within the total assets of a commercial company, in the same way, a high opportunity cost for the company, for future sales derive from these products. The analysis to maintain a certain level of inventory will depend on the cost-benefit of the convenience of the company, the main benefit of having inventories is to be able to satisfy consumer demand and the company can generate profits (Ochoa, 2002).

The need to maintain inventories is due to the fact that it is not possible to forecast the demand for products with certainty, since, if these are insufficient, the products will not be ready for sale and would lose the confidence of customers. For proper inventory management, the coordination of the purchasing, sales and finance departments is required (Besley & Brigham, 2009).

Financial management in inventories seeks to minimize the cost of maintaining certain levels of investment, since when a company manages inventories, this generates certain costs, according to the authors Besley & Brigham (2009) are the following:

- Management costs: Expenses associated with inventory management, such as the rent of the warehouse where it is kept, inventory insurance, among others; These costs often increase in direct proportion to the average amount of inventory being handled.
- Ordering Costs: Relates to placing and receiving an order or order to purchase new inventory. For the most part, these costs are fixed, regardless of the average inventory size.
- Management of inventories of derived demand: The demand for some types of inventories is derived from other needs thereof, that is, some products depend on customer demand to be requested. The methods for managing derived demand are planning material needs and inventory just in time.

2.4. Accounts receivable

Trade credit is the result of the creation of an item of assets called accounts receivable in the accounting of the selling company, accounts receivable are the credits that are granted to customers by granting them to pay after an agreed time for the items purchased after receiving them (Morales, Morales, & Alcocer, 2014).

Currently, many companies offer their products by granting a loan to their customers as a way of financing in the short term, likewise, to provide a competitive advantage with the other companies that represent their competition and only offer cash sales.

The decision to grant credit should be a consequence of the analysis of the costs and benefits obtained when doing it, according to the author Ochoa (2002), a balance should be sought between the two costs:

1. Cost of not granting credit: This cost is made up of sales that cannot be made because not all customers can buy cash. The opportunity to generate profitability for the company is lost.
2. Cost of granting credit: It is represented by the opportunity cost for the investment that is maintained while the clients pay, the costs of making the collection and in extreme cases, the bad debts, that is, those sales on credit that do not can be recovered.

Certain aspects must be considered when making the decision to grant credits because not all clients are eligible to obtain credits, an analysis of the current situation of each client, as well as the criteria that will be taken into account, must be carried out. when determining credits (Brealey, Myers, & Allen 2014).

When a client applies for a loan, the information they present and what can be obtained from their credit history is essential for the future recovery of the investment. Once the credit granting program has started, it is necessary to constantly review the consequences for the company, evaluating the response of customers to the stimulus of financing, the reaction of the competition, customer compliance, the behavior of collection, in other aspects; Likewise, it is important to define the amount, term, requirements to grant it, collection procedures, penalties for non-compliance, default interest and prizes or discounts for prompt payment (Ochoa 2002).

All of the above mentioned is reflected within the credit policies established by the company, according to the authors Besley & Brigham (2009), these policies include the following factors:

- Credit standards: Soundness and credit quality that a client must exhibit in order to evaluate in order to be granted a credit and the amount thereof. Mainly it takes into account the probability that a certain client pays slowly or even ends up being a bad debt. For this, the current financial position of the clients is analyzed.
- Credit terms: They are determined when the credit period begins, how much time the customer has to pay and if any early payment discount is offered.
- Collection policy: Procedures that the company follows to request payment of its accounts receivable, this includes determining the date and manner in which it will notify the buyer of the sale on credit. A very important decision within this policy is about past due accounts.

It is necessary to carry out a correct administration of the accounts receivable to avoid that any of these become uncollectible and be a loss for the company, for this purpose certain techniques, methods or models are used to help manage this working capital account .

A technique for the administration of accounts receivable is based on the establishment of credit and collection policies, the person in charge of this area can vary the level of accounts receivable balancing profitability and risk, this is done by reducing the credit standards. Credit policies can have a significant influence on sales, therefore, within these, some important elements are established that, according to the authors Van Horne & Wachowicz (2010), should be considered when granting credit:

- Credit period.
- Discount period for cash payment.
- Temporary date.
- Penalties for non-compliance.

Similarly, there are models that help to improve and optimize the administration of accounts receivable, to know the costs that collection entails and the random costs to it, according to the authors Van Horne & Wachowicz (2010), these models are:

- Bolten Model: Establishes certain elements to obtain the improvement of the policy to be set, the purpose sought in this model is to maximize the utility of the company and the knowledge of the costs that affect collection, in order to reduce them and identify which one Policy is the most suitable for the company.
- Gitman Model: This model is based on the evaluation of collection policies and change of plans, using for this purpose the financial reasons and some other formulas that help, such as account receivable turnover, average investment in accounts receivable, discounts for prompt payment and discount cost for prompt payment.

2.5. MSMEs

Micro, small and medium-sized enterprises (MSMEs) have great relevance in the economy and in employment at the national and regional levels, both in industrialized countries and those with a lesser degree of development. MSMEs represent, worldwide, the segment of the economy that provides a large number of economic units and employed personnel, for this reason the relevance of this segment of companies and the need to strengthen their performance by influencing them fundamentally in the global behavior of national economies (INEGI, 2014).

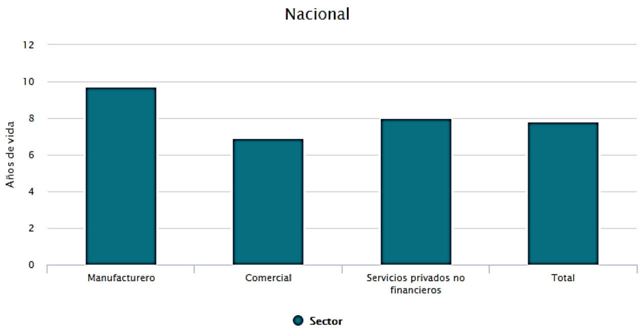
The Ministry of the Economy is in charge of officially establishing the stratification of micro, small and medium-sized companies, this is done through publication in the Official Gazette of the Federation, its latest reform to this stratification was presented on June 30, 2009, and takes into account the criteria in Table 1:

Table 1. Stratification of MSMEs in Mexico.

<table>
<tr><th>Size</th><th>Sector</th><th>Range of number of workers</th><th>Annual sales amount range (mop)</th><th>Combined maximum cap</th></tr>
<tr><td>Micro</td><td>All</td><td>Up to 10</td><td>Up to $4</td><td>4.6</td></tr>
<tr><td rowspan="2">Small</td><td>Commerce</td><td>From 11 to 30</td><td>From $4.01 to $100</td><td>93</td></tr>
<tr><td>Industry and Services</td><td>From 11 to 50</td><td>From $4.01 to $100</td><td>95</td></tr>
<tr><td rowspan="3">Medium-sized</td><td>Commerce</td><td>From 31 to 100</td><td rowspan="2">From $100.01 to $250</td><td rowspan="2">235</td></tr>
<tr><td>Services</td><td>From 51 to 100</td></tr>
<tr><td>Industry</td><td>From 51 to 200</td><td>From $100.01 to $250</td><td>250</td></tr>
</table>

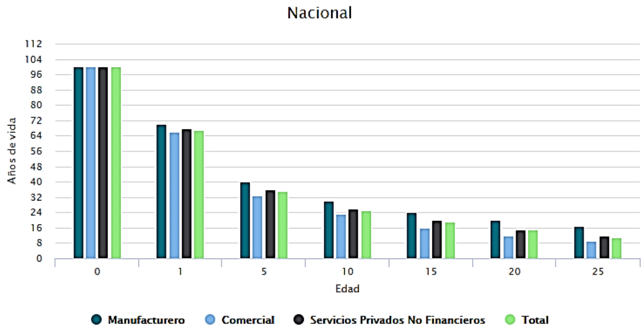
Fuente: Official Gazette of the Federation, June 30, 2009

According to the latest INEGI economic census (2014), of the total of MSMEs, only 9.9% reach 5 years of age and 19.8% reach 20 or more, so it is important to look for strategies that help decrease the mortality of these. In addition, it is mentioned that, of the three economic sectors of the country, the one with the lowest life expectancy is the commercial sector, with an average of 6.9 years compared to the private sector of 8 years and manufacturing with 9.7 years, which is visualize in Graph 1.



Graph 1. Life expectancy at birth by economic sector (Years of life). Source: INEGI (2014).

Likewise, the mortality rate in the commercial sector is high, since for every 100 businesses that enter the economic activity, only 9 reach more than 25 years compared to the non-financial private sector with 12 and manufacturing with 17 This can be seen in Graph 2 (INEGI 2014).



Graph Error! No text of specified style in document.**1**. Survivors for every 100 businesses that enter economic activity by economic sector, according to age.
Source: INEGI (2014).

Although life expectancy depends on various factors, MSMEs face an adverse market where they must compete with large companies that have greater financial strength, as well as a complex and defined technological structure (INADEM, 2018).

In this regard, Gómez (2016), states that MSMEs face a series of difficulties and obstacles that slow their growth, preventing them from strengthening adequately; In the same way, there are internal errors that the directors of this type of companies make when directing them and when combined with external factors they are a great burden for their development.

Some difficulties that SMEs present for their permanence and development within the economy are management and administration problems, not having a business plan, which consequently makes it difficult to obtain financing, as well as efficiently coordinating financial resources, generating difficulties. in the operation (Red Pymes-Cumex, 2010).

A great challenge in Mexico for micro, small, and medium-sized companies is to use the available resources to achieve, with maximum effectiveness and economy, the goods and services that people need and want to be able to compete in the market within the sector that said company This is focused, to face said consumer market demands business activities focused on meeting the needs of the consumer are required (Hernández, 2008).

4. Conclusion:

Micro, small and medium-sized companies are a fundamental element for the country's economic development, they represent the vast majority of economic entities in the country, they contribute more than 50% to the Gross Domestic Product and generate more than 70% of formal jobs, for this reason it is relevant to pay attention to these companies.

Most of the MSMEs are companies in the commercial sector, whose volatility is very high, very few reaches more than 20 years, this is due to various factors among which is financial management, especially capital management. of work.

In accordance with the aforementioned, it is concluded that working capital is the means by which the necessary financial resource for the daily operations of companies is obtained, consisting of cash, inventory and accounts receivable. It is important that MSMEs take these aspects into account when managing the economic resource, since the investment in these accounts represents the majority of current assets.

Inadequate management of working capital accounts causes serious financial problems, mainly when it comes to recovering the money invested, causing a high inventory turnover, the collection of customer credit accounts is not carried out properly, exceeding the limits credit allowed by customers, causing that money cannot be recovered in the time necessary to be able to cover the accounts payable, that is, the accounts that are held with suppliers, which causes them not to refill, not have product to sell, lose customer trust, and make the cash flow cycle longer than expected.

All of the above brings with it consequences such as loss of clients, decrease in credits by suppliers, credit accounts of clients that become uncollectible, likewise, a chain of indebtedness when requesting external loans to be able to cover short-term debts with suppliers and subsequently there is no liquidity and solvency to cover these new credits.

It is important that companies carry a harmonious collaboration with finances, focusing on raising money that enters companies and how it can be re-invested in it, so that they have liquidity and cover outstanding payments and that the investment is their own, reducing commercial credits, generating profits to cover expenses of its daily operations.

Corresponding Author:
Itzel Monserrat Pérez Hernández, Eng.
Administrative Engineering Department, Technological Institute of Apizaco, Apizaco, Tlaxcala, México.
E-mail: m.itzel7@hotmail.com

References:

1. Besley, S., & Brigham, E. (2009). Fundamentals of Financial Administration (Fourteenth ed.). Mexico: Cengage Learning.
2. Brealey, R., Myers, S., & Allen, F. (2014). Principles of corporate finance (Eleventh ed.). Mexico: Mc Graw Hill.
3. Durán, Y. (November 18, 2010). Management of Working Capital: a financial tool for the management of traditional Venezuelan SMEs. Management Vision, 37-56.
4. Gámez, O., Banda, H., & Tirado, M. (2004). Working capital: financial models and decisions. Mexico: Mexican Institute of Public Accountants, A.C.
5. García, J., Galarza, S., & Altamirano, A. (August 2017). Importance of efficient administration of working capital in SMEs. UNEMI Sciences, 30-39.
6. Gómez, A. (March 21, 2016). The financial. Retrieved on June 8, 2018, from http://www.elfinanciero.com.mx/opinion/alejandro-gomez-tamez/la-fuerza-del-pais-son-las-mipymes
7. Hernández, J. (2008). Competitive advantage. Creativity for your SME business Register Today.
8. INADEM. (2018). National Institute of the Entrepreneur. Retrieved on May 2019, from https://www.inadem.gob.mx/institucional/
9. INEGI. (2014). National Institute of Statistic and Geography. Retrieved on March 2019, from https://www.inegi.org.mx/contenidos/programas/ce/2009/doc/minimonografias/m_pymes.pdf
10. INEGI; BANCOMEXT; INADEM. (July 13, 2016). INEGI. Retrieved on October 2018, from http://www.inegi.org.mx/saladeprensa/boletines/2016/especiales/especiales2016_07_02.pdf
11. Johnson, R., & Melicher, R. (2006). Financial administration. Mexico: Continental Publishing Company.
12. Morales, A., Morales, J., & Alcocer, F. (2014). Financial administration. Mexico: Grupo Editorial Patria.
13. Nava, M. (2009). Financial analysis: a key tool for efficient financial management. Venezuelan Management Magazine, 606-628.
14. Ochoa, G. (2002). Financial administration. Mexico: Mc Graw Hill.
15. Pymes-Cumex Network. (2010). A comparative study of the financial and administrative profile of small companies in Mexico: entities of the State of Mexico, Hidalgo, Puebla, Sonora and Tamaulipas. Research Center Magazine, 5-30.
16. Ross, S., Werterfield, R., & Jaffe, J. (2012). Corporate Finance (Ninth ed.). Mexico: Mc Graw-Hill.
17. Van Horne, J., & Wachowicz, J. (2010). Fundamentals of Financial Administration (Thirteenth ed.). Mexico: Pearson Education.

Received June 02, 2020; reviewed June 08, 2020; accepted June 19, 2020; published online August 01, 2020