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WORKING CAPITAL MANAGEMENT AS A FACTOR OF COMPETITIVENESS IN MICRO AND SMALL ENTERPRISES

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ABSTRACT

Financial management presents numerous tools for efficient working capital management, which, when familiar and correctly used, can contribute towards increasing liquidity, rendering the enterprise more profitable and competitive. This paper discusses, through a theoretical essay, the relationship between working capital management and competitiveness of micro and small enterprises. In order to remain competitive in a globalized market, micro and small enterprises need, beyond keeping strict controlof their costs and prices, an efficient working capital management, in order to reduce costs, thus enabling the enterprise to become increasingly competitive. Knowledge in the financial area can be very useful to face difficulties and increase competitiveness of enterprises, once it allows a reduction of investment in working capital, which can be directed towards innovation and technology. Improved working capital managements will contribute towards increasing competitiveness and longevity of micro and small enterprises.

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INTRODUCTION

Globalization of the economy was already being discussed in sociology and anthropology in the late seventies, however, despite this concern having been registered many centuries ago, it became more evident in the latter years. (Robertson & White, 2007). The globalization phenomena in the business environment has brought about a redesign of business strategies, whereby enterprises are faced daily with increasingly greater challenges. When one mentioned competition in the past, one thought of a neighboring enterprise, however, today, competition could be on the other side of the world and even in a more favorable economic and financial situation. With the advent of the internet, it is as accessible to the client as your enterprise. Competition today is not only the enterprise that sells a similar product to your, it is, in reality, the enterprise that competes with the purchase decision-making process of the customer with your enterprise. To keep-up competitiveness and economic-financial feasibility of the enterprise, it is necessary to have a strict control over costs and processes and the benefits generated from such efficient management is somewhat overlooked in studies (Christensen, 1998). Should the consumer market not accept the price practiced by the enterprise and which the enterprise perceives as being fair to cover its costs and adequately compensate invested capital, it is then essential, beyond keeping strict control of its processes, to efficiently manage its floating capital (working capital), in order to maintain strict observance of its short-term obligations and contribute towards cost reduction, permitting, in this manner, to become more competitive, even when practicing the prices accepted by the market which may be lower and, consequently, less profitable. In such a relentless pursuit of improved processes, knowledge-management becomes a triggering factor for competitive edge, contributing towards enabling and guiding decision-making with the efficient use of information, generating new insights or new solutions on an ongoing basis (Santos, Lavarda & Marcello, 2014). In a highly competitive scenario and with lower profit margins, the challenge of organizations for obtaining market shares is to innovate, making a difference and, at the same time, efficiently managing expenditures. Studies and continuous generation of knowledge permit management and technological innovation in capital management for micro and small enterprises (MSEs), contributing towards their sustainability in this highly competitive environment, thus promoting business growth and local and regional economic development. This theoretical essay aims to discuss about the key tools used for attaining efficient working capital management of micro and small enterprises and establish a correlation between the efficient use of management tools and competitiveness in a globalized and increasingly competitive business environment. Concepts of globalization and its negative aspects or dysfunctions of this phenomenon are discussed under section 2 herein;

in section 3, competitiveness is addressed, with emphasis to issues identified as disadvantages for micro and small enterprises in relation to large corporations in a scenario of competitiveness and innovation; and, finally, under section 4, studies and main approaches to efficient working capital management are presented. To achieve the proposed objectives, the literature review method was used, with a qualitative approach, correlating the research environment and the sample used (MSEs) with the real world, without requiring numerical translations, The methodology used is also of a descriptive nature once the behavior of the employees of the researched enterprises was analyzed to identify the degree of efficiency of the model.

Globalization and development: Globalization imposes a new global order, generating a highly competitive environment. According to Guivant (2001) competitiveness imposed by globalization brings about what the author refers to as "global risk society", where transactional risks affect all nations, organizations and social classes, regardless of borders. Bresser-Pereira (2009) presents different definitions for globalization, among which three stand out. Firstly, as a phase of capitalism where economic competition between national States for higher growth rates becomes generalized; secondly, economic competition on a global level between large companies supported by their respective States-nations and thirdly, Bresser-Pereira (2009) draws attention to a competition without any support of the States. According to Sanabio & David (2012), the globalization phenomenon is characterized and can be understood as being a process from which the world space becomes one. For the authors, the connection between globalization and capitalism occurred according to international production models, which enabled what they define as overtaking or deconstruction of both geographical as well as social and cultural borders. Beck (2018) points out that, in order to understand the current phase of high modernity, based on evolutionism and inaccuracy, which the author defines as global risk society, demands knowledge and the application of these in a dynamic and free manner, in other words, not laid down on unalterable concepts and assumptions. Studies such as those of Hunton, Wier & Stone (2000) and Santos, Lavarada& Marcelo (2014) discuss the association of the performance of management and of the organization as an aspect influenced by non-objective factors such as knowledge, skill and experience. Micro and small enterprises in order to survive, in the light of such environment, need to professionalize themselves and seek for increasingly effective management processes to enable the definition of strategies to a competitive edge against large global corporations.

According to Santos & Pereira (1997), there is a growing similarity between the demand and supply structures in different countries, with economic structure differences, which permit, at the same time: gain ranges, technical and productive standardization and reduction of the lifespan of the product, altering the focus of the competition of products to the competition of technology and processes (Santos & Pereira, 1997). This proposal is corroborated by Naisbitt (1994) who emphasizes that the cooperation process among enterprises has taken the form of a major strategic economic alliance. From such strategic alliances, products can be produced at different locations with the use of resources from any location, independently of where the enterprise is situated, with similar quality and sold anywhere worldwide. (Naisbitt, 1994). According to Smith & Baylis (1999) the implementation of globalization as a social phenomenon occurs in the following phases: firstly, transformations of an economic nature, generating an irrefutable political situation, where economic control and management is removed from the State, its organisms and mechanisms. Secondly, evolution and changes in means of communication which alter the world perspective and real-time perception on international events, followed by the proliferation of globalized cultures in urban centers as a third proposition. The fourth phase occurs from thinking globally and acting locally as a daily practice and, as a fifth stage, where the media and means of communication have their notions of space and time transformed; and, finally, the sixth stage in which international risks such as pollution, poverty and social risks are explored, whereby the States, on their own, are incapable of countering, requiring a joint and global intervention. Asai & Almeida (2012), upon recognizing the existence of globalization, emphasize the perverse and harmful angles, namely, their dysfunctions and negative aspects. The authors state that some aspects such as poverty, unemployment, loss in quality of life and other negative externalities, are common and rising in the international context, deriving from the capitalist logic of competitiveness and the hegemony of some nations. This point of view reinforces the idea that micro and small enterprises need to have efficient management controls and processes to remain competitive in the market. Decisions on strategies that increase liquidity, profitability and consequently longevity must be taken (Ando & Kimura, 2015). In a scenario of global competition, in order to guarantee success and economic-financial feasibility, it is necessary to be different, innovate, create and recreate products and processes. Considering a developing economy such as Brazil, profitable and sustainable micro and small enterprises are capable of generating employment and income, providing better quality of life for collaborators, better wages and social benefits, contributing, in this manner, towards local and regional development.

***Competitiveness and Edge**:* Ansoff (1986), describes competitive edge in a marketing sense as an edge derived from perceiving market trends ahead of the competition and adjusting the supply of the certain enterprise in the same direction. Authors such as Morrisson& Lee (1979), Cezarino & Campomar (2006) when addressing the matter, draw attention to the expression competitive edge, which has gone through a visible evolution in the last decades, involving the business unit as a whole and not only the product or service. An enterprise is competitive in a determined market when it is able to be differentiated, obtaining above average return on invested capital, i.e., according to the rules established by the industry it is able to place itself at an advantage when compared to its competitors (Coral, Strobel & Selig, 2004). ForClark & Guy (1998) competitiveness is generally understood as the capacity of a company to increase its size, market share and profitability. This position is also corroborated by Li, M. (2009) who emphasizes that in the latter years, global business has faced many changes in dynamics, where management is a theme of discussion and concern. For the author, globalization, strategic alliances and the internet have rendered information and knowledge fluid and created changes in groups of clients. In such scenario, to obtain and maintain an edge demands constant monitoring of variables affecting competitiveness and positioning in a differentiated manner from competitors, implementing strategies that cannot be easily emulated by competition (Coral, Strobel & Selig, 2004). Porter (1996) highlights the existence of five forces capable of influencing the strategy of an enterprise: competitors, suppliers, products, substitutes, new entrants and consumers. Globalization broadened the dimensions of these factors, causing these forces to be viewed now on a global level and no longer just at a regional level. An enterprise in South America can sell a product in Europe, its competitors can be Japanese, new entrants can be from the U.S.A., substitute products can be from South Africa. (Delfino & Costa 2012).

When considering, competitiveness of micro and small enterprises, Prazeres (2004) states that these contribute decisively towards the development of a country, once they have different characteristics to large enterprises and, thus, cannot be compared or equate to the organization model practiced by larger-sized companies. The author draws attention also to the fact that micro and small enterprises, when organized as isolated production units, that aim to reproduce operating models of large enterprises are not generally able to overcome the principal of generating scale economy (high volumes of production, typical of large-sized enterprises), due to structural and operational limitations (Prazeres, 2004). Multinationals, according to Ibrahim & Zailani (2010) have capital, brand strength and reduced prices, high investments in research, development and innovation (RDI), quality of products and services, distribution facilities, making competition even tougher and placing micro and small enterprises in disparity. Asai & Almeida (2012) emphasize that large-sized companies are also able to hire qualified collaborators, an aspect in which micro and small enterprises are at a disadvantage, also due to the fact that the latter cannot pay better wages or provide high technology. Micro and small companies, according to these authors, have a discrepancy in relation to the lack of scale economy which causes their costs and prices to be higher when compared to large and multinational enterprises which have operations, standardizing product characteristics, prices and administrative practices, obtaining higher production and reduced costs. To minimize the impact of such difficulties, Gunasekaran, Rai & Griffin (2011) state that micro and small enterprises need to improve their management processes in order to continue to be profitable and competitive.According to Coutinho, Delfino & Costa (2012), if competitive edges are factor that permit an enterprise or organization to obtain a differentiation of its products, services or processes from other competitors to increase their market share, human capital must be considered as the main competitive instrument. Accordingly, the authors emphasize that for a micro or small enterprise to attain such differentiation, it must aim to broaden, through people, its capacity for performing physical work and improve processes, through mental and intellectual capacities. Bohlander (2005, underscores that, for people to be competitive sources, they must fulfill the following criteria:have value, capacity for finding and developing means for cost reduction; be differentiated, having rare skills and knowledge and who are not easily available to competitors; difficult to emulate, have characteristics that are not easily copies by other individuals and organizations; and, organized, retain talents that can be combined, forming an efficient ensemble, capable of attributing value to an organization.

In view of this reasoning, it can be inferred that financial managers with knowledge and skills in working capital management are sources of a competitive edge, contributing towards the sustainability of micro and small companies. Limongi-França *et al.* (2002) stress that organizational changes must always be guided towards the development of internal competitivity of the organization, in other words, must mobilize stored organizational intelligence, optimize the use of human resources and stimulate the development of their personal and professional skills. For the author, when conceived in this manner, management is structured with a focus on results, aiming to identify restrictive andfacilitating factors for its implementation; generate a dissemination program capable of assuring adhesion and understanding of the internal public; design adequate management tools and processes for reaching excellency in management and attaining the objectives of the organization (Limongi-França *et al*. 2002). According to Assaf Neto & Silva (2007), in relation to the financial performance of the enterprise, inadequate management can result in a series of problems, effectively contributing towards the formation of a state of insolvency, possibly leading the enterprise to situation of no longer being a going concern. Thus, financial managers must contribute towards increasing competitiveness of micro and small enterprises, once the objective of short-term financial management is to manage each current asset and current liability in order to reach a balance between profitability and risk, positively contributing to the value of the enterprise (Gitman, 2010). Reinforcing this proposition, Fatihudin (2018) emphasizes that the adoption of tools and procedures that enable the correct and timely measurement of financial results is also an essential aspect for micro and small enterprises.

Main Approaches to working capital Management: Data from the Brazilian Micro and Small Enterprise Support Service (Sebrae) (2017) indicate the lack of working capital and financial issues as one of the causes for difficulties in managing companies – active enterprises and one of the reasons for closing of companies – defunct enterprises. In their researches it was also identified that "financial and corporate organization areas and the knowledge of area of operation are consultancies that are signaled as being most useful for facing difficulties of enterprises" (SEBRAE, 2017). Knowledge of the financial area can be very useful for facing difficulties and increasing competitiveness of enterprises, once it permits the reduction of investment in working capital, which can be applied in innovation and technology. Better working capital management contributes to increase competitiveness and longevity of micro and small enterprises, where it is relevant to know the main tools that can be used in this relentless search for increasingly effective management processes.

Working capital management: In an efficient working capital management, the aim is to balance profitability and liquidity of the enterprise. Working capital management refers to the management of current accounts of the enterprise. Working capital elements are identified under current assets and current liabilities, comprising cash and cash equivalents readily convertible into cash within a maximum of twelve months, included in the balance sheet of the organization. The balance sheet informs the investment structure, under assets; and the structure of its sources of financing, under liabilities. This structure must be chosen with the purpose of maximizing the value of the investment for the stakeholders of the organization (Assaf Neto & Silva, 2002; Gitman, 2010; Pereira & Souza, 2012). For Assaf Neto & Silva (2012) the definition of the amount of working capital is a task that exercises great influence on the success of the business, bringing evident effects on liquidity and profitability of the enterprise. An enterprise must invest in working capital while the marginal return of current assets is superior to the cost of resources allocated for financing.

> Working capital or circulating capital is represented by current assets, that is, short-term investments, identified generally by cash and cash equivalents, receivables and inventory. In a broader sense, working capital represents resources demanded by an enterprise to finance its operational requirements starting from the acquisition of raw materials (or goods) to the receipt from the sale of the finished good. (ASSAF NETO & SILVA, 2012, p. 1.)

The authors also state that current asset elements do not always have a balanced temporal synchronization in levels of activities. Accordingly, due to the fact that production, sale and collection activities are not synchronized, it is important to have an integrated knowledge of their evolutions to adequately dimension necessary working capital investment and enforce control. The focus of the financial area for managing this process is basically in the search for effectiveness in the management of resources, through maximizing return and minimizing costs. Working capital management refers to the management of accounts of working capital elements, in other words, current assets and liabilities and interrelation between them. In this concept, the adequate level of inventory that an enterprise must maintain, its investments in financing to clients and cash management criteria are discussed.

Inventory management: Inventories are of essential importance for the finances of micro and small enterprises once, depending on the line of business, these consume a large portion of investments in working capital, which could lead the enterprise to a condition of insolvency. ForHoji (2010) investment in inventory has a significant bearing on enterprises, whereby for: commercial enterprises, represented basically by goods for resale; industries, where, according to the finishing phases, can be classified as: raw-materials, products in progress, inputs, packaging materials and finished goods; service enterprises, represented basically by inputs and storeroom. For Preve & Sarria-Allende (2010), despite the fact that the financial manager is not directly responsible for inventory management, it is possible to influence in results interacting with operational areas responsible for the control of the turnover and adequate levels of inventory. Management needs to be aware that working capital invested in inventory has a financial cost and can affect economic and financial results of an enterprise. Osasuyi & Mwakipsile (2017) state that all those directly and indirectly responsible for inventory management must contribute towards maintaining the most adequate level of inventory without, however, jeopardizing other activities of the enterprise. In this respect, the author underlines that the financial manager can substantially contribute to evidence the values and duration of inventory during each production phase, through effective management control. In this same thread, Kato (2012) emphasizes that inventory always generates expenditure, apart from the capital invested, such as storage and handling expenses, loss from obsolescence or deterioration of products, among other aspects. This author also draws attention to the fact that low inventory levels can also adversely affect sales opportunities and raise production costs, however excess inventory can generate negative impacts, such as: raising the cost of working capital invested resulting in the loss of opportunities for other investments; additional cost for handling, storage and insurance; and risk of loss with obsolescence, deterioration, theft, fire and catastrophes (Kato, 2012). In the opinion of Assaf Neto & Silva (2012), there are various reasons leading to investments in inventory, among which emphasis is given to inventories having the function of making economic flow continuous. In an industry, the lack of raw material can stop a production line, generating immeasurable losses to an enterprise, which could lead to the dissatisfaction of the client and to the definitive loss of the client, as well as subjecting the enterprise to other costs such as the payment of contractual fines. Accordingly, as a precaution, enterprises usually maintain a certain quantity of inventory due to possible failures in the supply or to extra order by the client. In the retail trade, the existence of a varied inventory means a greater sales volume. For Kato (2012) good inventory management means inventory quick inventory turnovers (sales, transforming into cash/income); maintaining adequate inventory volumes (optimum level) to attend to demand, monitoring the market to observe trends, averages and possible consumption seasonality; negotiate efficiently with suppliers to guarantee on-time delivery, volumes, immediate substation in case of defects and reverse logistics in the case of expiration; and, adoption of scientific methods, tools and techniques to guarantee physical arrangements and adequate inventory movements (Kato, 2012). ForNguyen, Pham & Nguyen (2020), a correct and effective inventory management can, apart from avoiding losses (physical and financial), guarantee production and meeting the demand, as well as keeping up a positive image with clients and with the market.

Management of receivables: One of the most relevant aspects in the sale process in Brazil is the granting of credit (credit sales), considered a sales facilitating factor. However, Lemes Júnior (2005) draws attention to the fact that granting credit requires large volumes of investment in working capital, making its management complex, and requires from management attention and the use of adequate techniques. One of the most expressive elements of an enterprise's working capital is the receivables from credit sales. Investments in receivables represents a significant portion of current assets, influencing in a meaningful manner the profitability of enterprises (Assaf Neto, 2005). Trade receivables are the result of credit sales, which are made after granting of credit. Credit sales increase the volume of sales, and, as a consequence, profit, but also generate risks of default and expenses with credit analyses, collection and receipt. One manner in which an enterprise can increase the level of operation, inventory turnover, and thus, gain scale and maximize profitability is through credit sales. However, before making a sale to a new client, a thorough and careful analysis and background check must be carried out. Credit sales without the necessary care have a high possibility of becoming an unpaid receivable. Credit analysis must also be performed on longtime and traditional customers. Their situation must be constantly monitored and updated, in relation to punctuality, payment capacity and financial situation. Financial information can be obtained through specialized entities such as Credit Protection Services (SPC) and Centralized Banking Services (Serasa) (Hoji, 2010).

According to Kato (2012) credit sales are part of a common trading process for enterprises to keep competitive, attracting customers, increasing sales and profits. By postponing receivables, however, enterprises decrease their cash and cash equivalents and increase the risk of default. In view of this fact, financial management must participated in the establishment of credit policies, including the process for selection of customers, determination of procedures and credit analyses. When there is little restriction, a significant increase in sales and in default can occur and, conversely, can cause a reduction in sales and risk of receivables. The sales and receivable process are connected to an efficient credit policy. There are many variables considered in a credit analysis, among which emphasis is given to granting credits with restrictions in terms, amounts involved, guarantees offered, etc. Some issues must be very well defined, such as the cost for financing customers, risks involved and necessary working capital for granting credits (Da Silva *et al.*, 2019).

Cash management: Cash management, as defined by Srinivasan & Kim (1986) refers to planning and control activities of financial availability, represented under current assets by deposits in bank current accounts and short-term investments with immediate liquidity. Kato (2012) defines cash flow management as the financial management role that has the responsibility of planning and controlling, in the short-term, incoming and outgoing monetary values of the enterprise and has the main objective of keeping positive balances to guarantee the capacity for meeting its short-term obligations (liquidity). Steffen *et al.*, (2014) stress that many variables influence or interfere in the creation of value for an enterprise, among which the effect of investment in net operational working capital, which impacts directly on the net income of the enterprise. The authors further reinforce that at an operational level one of the main activities of financial management is to manage daily inflow and outflow of financial resources of the enterprise, with the purpose of maintaining a positive balance to avoid loans and the payment of interest to financial institutions, which could affect the generation of profit and consequently return indicators. For Assaf Neto & Silva (2012) cash flow is a tool intended for relating incoming and outgoing (disbursement) monetary funds in the scope of the enterprise in a determined period of time. Its use enables the enterprise to identify eventual cash surplus or shortage and, accordingly, the enterprise can take the necessary corrective measures. Cash flow is important for an efficient management, once it is an indispensable tool capable of generating and signaling in a timely manner the financial course of business. This position is corroborated by Shash & Qarra (2018) who emphasize that cash flow management is essential for the survival of enterprises through the monitoring and control of cash inflow and outflow and prevention of possible deficits that could commit short-term financial health, with long-term effects. In order to remain as a going concern, enterprises must settle their various commitments in a timely manner, and the basic condition is presenting sufficient cash balance upon the maturity of operations (Prümer, M. (2005). If it is not possible to settle commitments on the due dates, the consequence could be cutting credits, suspending delivery of materials and goods, and causing a serious suspension of operations.

For efficient cash management, Kato (2012) makes the following recommendations: delay payments without falling into default and without generating the payment of interest; movement of inventories as fast as possible without, however, compromising income and profit margin; maintain minimum inventory levels, observing business opportunities; pursue maximization of yield of the cash balances applied; advance terms of receivables without compromising levels of sales and competitiveness. Cash generation supports the mission of enterprises, has the financial objective to obtain the necessary profit from the remuneration of the invested capital, enabling the longevity of the enterprise. Understanding financial movements is essential for understanding operations of the enterprise to assess feasibility and return on investments (Padoveze, 2011). According to Santos (2001), cash management begins with cash planning, which consists of estimating the evolution of the cash balance, an essential factor for decision making. For Wadesango, Tinarwo, Sitcha & Machingambi (2019) cash planning is paramount both for enterprises undergoing financial difficulties, as for those that are well capitalized. Cash planning for companies undergoing financial difficulties is the first step in the sense of attempting to equate its finances. For enterprises in good financial health cash management permits the enterprise to increase efficiency in the use of its financial funds. Cash planning is a relatively complex activity, once it deals with a large dose of uncertainties, but generates benefits that compensate any efforts made in its implementation. According to Santos (2001), one of the main purposes of cash projections is to inform the capacity that the enterprise has to settle its short and long-term financial commitments; other objectives can also be highlighted, such as:planning loans and financing, which should be carried out within the right timing and quantity; maximize yields from short-term investments on cash surpluses – the financial market remunerates better long-term investments; assess the financial impact of cost variations–sometimes enterprises are not able to pass on cost increases to consumers, at the risk of losing market; assess the financial impact of increased sales – it is necessary to project the impact on cash of the rapid increase of sales values, due to improved prices or quantity placed in the market. With the information generated by the cash flow, the enterprise has an improved condition of decision making as to what to do with surplus cash: apply it in the financial market, settle debts in advance or make permanent investments on expansion or improvement of operating processes, etc.

FINAL CONSIDERATIONS

When analyzing working capital management from the researched literature, used as a basis of the study, it is possible to conclude that the manager needs to be well informed in relation to forces and variables that impact the organization, such as globalization, competitiveness, advances of technology and information. In line with the working capital management theories, in the face of a globalized market, effective management of these resources can become a competitive edge for micro and small enterprises, reducing disadvantages against larger enterprises. Micro and small companies have a disadvantage in relation to larger enterprises, mainly in relation to scale economy, which causes its costs and prices to be higher and also as to hiring qualified collaborators, once large corporations offer better wages and dispose of advanced technology and research, development and innovation, and are more attractive for market professionals. In the face of such disadvantages, it is necessary to develop internally strategic advantages based on management efficiency to guarantee growth and competitiveness. In an effective working capital management, the aim is to balance profitability and liquidity of the enterprise, in order to promote competitiveness and sustainability of the enterprise within the globalized and highly competitive market. This balance can be possible through working capital investment in adequate levels, in other words, when marginal return on current assets is superior to the cost of resources allocated for its financing, generating for micro and small enterprises the capacity to remain healthy, long-lived and prosperous, capable of remunerating its investment. Inventory management is a factor of vital importance for the finances of micro and small companies, once it represents, at the same time, capital assets and elements of competitiveness. In industrial and commercial enterprises inventories tend to consume a large portion of invested working capital, however, it represents an asset that can be converted into cash and generate a differential due to aspects of flexibility (prompt delivery). Financial manager is not directly responsible for inventory management, but can, in an indirect manner, manage inventory in order to generate global results of the enterprise through interaction with the operational area, resulting in economy on procurement (negotiation with suppliers), competitiveness (speed of sales) and enhancement of liquidity (increase of sales with low inventory levels). Management needs to be aware that working capital invested in inventory has financial costs, which affect economic and financial results of the enterprise. Therefore, it is necessary to establish optimal inventory levels, once low levels can hinder sales opportunities and raise production costs. Excess inventory, on the other hand, entails, apart from the cost of working capital invested, additional costs for aspects such as handling, storage, insurance, higher risks of loss from obsolescence, deterioration, thefts, fire, catastrophe or risk generating situations.

Special attention should be given, also, in the granting of sales credits when searching formore effective working capital management methods. Receivables require large volumes of investments in working capital, and thus have an important influence on profitability of enterprises, which makes its management complex and requires from management attention in the use of adequate techniques. Through credit sales the enterprise increases the level of operations, turnover of inventory and, accordingly, can gain scale and maximize profitability. Before making such sale, however, a careful and thorough background check of the customer should be carried out to avoid credit loss and default. Credit sales performed without the necessary care or without the adoption of adequate credit instruments could result in high possibilities of non-payment and credit loss. Finally, cash management is a factor which should be given more emphasis in the effective working capital management, once it is an essential signal of the financial health of the business on a short-term and is impacted by prior factors (inventory, suppliers, credit). To remain in operation, enterprises must settle (honor) their various commitments in a timely manner, otherwise they may have a reduction in credits, suspension of supplies and of delivery of services, materials and goods, and can be the cause of the discontinuity of operations. Thus, understanding financial transactions becomes essential for understanding operations of the enterprise and for assessing feasibility and returns or investments. In general, it is possible to conclude that the use of adequate tools for working capital management of micro and small enterprises provides for improved results, generating competitive advantages and greater security in the case of changes in the globalized market.

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