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Exploring Working Capital Practices in Albanian SMEs: A Descriptive Analysis of Financial Decision-Making

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Abstract: This paper presents a descriptive study that examines financial management practices in small and medium-sized enterprises (SMEs) in Albania, with a specific focus on working capital components. The analysis is based on a structured questionnaire completed by firm representatives, covering decision-making, owner qualifications, use of software, cash planning, inventory control, and trade credit policies. While many firms report using digital tools and preparing cash budgets, overall financial practices remain largely intuitive and informal. A significant share of decisions is made by owners with limited financial or accounting education, and key elements such as cash surpluses, shortages, inventory levels, and credit sales are handled without structured policies. These conditions may contribute to inconsistencies in managing short-term financial resources, potentially creating anomalies that threaten the firm's financial stability. The study does not address other areas of financial decision-making but aims to shed light on common working capital practices and highlight the need for stronger financial awareness and planning capacity within SMEs and among their leadership.

Keywords: working capital practices; financial literacy; owner decision-making; financial planning gaps; SMEs

JEL Classification: G30; G53; D81; L26

1. Introduction and Local Context

Working capital management occupies an important place in the theory and studies of financial management, not only for large firms (Aldubhani, Wang, Gong, & Maudhah, 2022), but also with great significance for small businesses (Gallegos Mardones, Moraga-Flores, & Briones Soto, 2024). However, despite this fact, studies on financial management practices specifically on working capital management in relation to Albanian SMEs are scarce, and rarely conducted at the firm level in a way that would accurately explore and describe what inhibits these practices within the enterprise. This gap is even more critical given the importance of SMEs for developing countries and particularly for the Albanian economy. So, in order to highlight the relevance of this study, it is essential to understand the local SME landscape. In Albania, 86% of enterprises have only 1–4 employees, and 74% are sole

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proprietorships, reflecting a micro and informal business structure (Instat, 2022). This reflects a fragmented business landscape in Albania, where the vast majority of enterprises are small, often lacking support from professional financial management structures, and operating without developed business departments or functions.

The European Commission report (2021) also states that “SMEs are particularly important for the Albanian non-financial business economy, and in 2018, they generated 68.7% of total value added and 80.0% of total employment, significantly more than the respective EU averages of 52.9% and 64.9%”.

These figures highlight the critical role that SMEs play in sustaining Albania’s economic activity and employment, pointing to the need for targeted policies and improved financial management support tailored to their unique structure and challenges.

2. Research Objectives

This study provides a descriptive overview of working capital management practices in Albanian SMEs. Based on data collected through a structured questionnaire, it investigates how businesses handle key short-term financial aspects, including cash flow, inventory management, and trade credit. The main objective of this research is to explore and describe how small and medium-sized enterprises (SMEs) in Albania manage their working capital and make financial decisions. Specifically, the study aims to:

- Identify patterns and gaps in financial planning;
- Assess the influence of owner knowledge and involvement in decision-making processes;
- Examine the use of financial software tools beyond mandatory fiscal systems;
- Explore how SMEs respond to liquidity challenges and manage credit risks;
- Raise awareness of the need for more structured and systematic financial management practices within SMEs.

3. Literature Insights and Conceptual Perspective

According to Peel and Wilson (1994), financial management practices are even more important and critical for small and medium-sized enterprises than for larger ones, particularly due to the lack of financial expertise compared to larger firms (as cited in Agyei-Mensah, 2010, p. 6). Problems that become even more pronounced if the enterprise or firm is growth-oriented, because for this objective it commits to increasing sales and, for this reason, may tolerate longer credit periods for clients who might also have financial difficulties, therefore small and medium-sized enterprises may be more exposed to problems related to the management of their trade receivables (as cited in Agyei-Mensah, 2010, p.8). However, Barrow (2001, p.56) emphasizes that small and medium-sized enterprises indicate that working capital is not utilized by these firms, even stating that, “the smaller they are, the less efficient they tend to be” (as cited in Hamza, Mutala, & Antwi, 2015, p. 457).

One of the main objectives of working capital management is to harmonize and balance the firm's operating cycle, as well as to optimize it and achieve short-term financial equilibrium. Another objective, as referred by Diacogiannis (1994, as cited in Agyei-Mensah, 2012), is related to:

- The importance of a firm's working capital management for its liquidity, as working capital policies enable the firm to maintain a smooth operating cycle, meet its short-term obligations in a timely manner, and ensure the normal flow of its daily operations. This clearly demonstrates that if firms do not pay attention to their short-term payment capacity, they may experience financial failure even if their financial performance, such as sales growth, is improving.

- The relationship between the firm's profitability and working capital management, as maintaining a certain level of working capital also affects its profitability especially when considering interest rates or the costs associated with financing its short-term assets (as cited in Agyei-Mensah, 2012, p. 570).

Nyamao, Ojera, Lumumba, Odondo, and Otieno (2012) also explain that:

> Working capital management is a very important component of corporate finance because it directly affects the liquidity, profitability and growth of a business and is important to the financial health of businesses of all sizes as the amounts invested in working capital are often high in proportion to the total assets employed (Atrill, 2006). (p.5808)

According to Nyamao, Ojera, Lumumba, Odondo, and Otieno (2012), the study of working capital management focuses on three components, inventory management procedures, receivables management procedures, and cash management procedures (p. 5809). Furthermore, Nyamao et al. (2012) emphasize that, according to research on working capital management techniques, the financial performance model is determined by the effectiveness of cash management, receivables management, and inventory management. Therefore, increasing the effectiveness of cash, receivables, and inventory management procedures could boost financial performance (p. 5809). Padachi (2006, p. 47) emphasizes that even though working capital is a challenge for all businesses, small businesses should give it more attention. They can't risk being without money since they are so susceptible to changes in working capital levels. The study conducted by Peel et al. (2000, as cited in Padachi, 2006, p. 47) found that small businesses typically have a higher percentage of current assets, less liquidity, variable cash flows, and a greater reliance on short-term debt. As cited in Padachi and Howorth (2014) the failure of financial managers to effectively plan and manage the current assets and current obligations of their separate companies has been credited for a significant percentage of business failures (Smith, 1973; Dodge & Robbins, 1992; Ooghe, 1998). Due to distinct operational conditions and traits, small businesses in particular may have significant problems (p.99). At various stages of the company's life cycle, poor financial planning may be identified as the primary reason for small business failures (Argenti, 1976 as cited in Fredenberger, DeThomas & Ray, 1993; Berryman, 1983; Dodge and Robbins, 1992). Evidence of the absence of systematic working capital management practices in micro enterprises was also reported by Nayak and Greenfield (1994, as cited in Padachi & Howorth, 2014, p. 99).

4. Study Methodology

In this study, the primary data collection instrument was a structured questionnaire, designed in alignment with the objectives of the research. The formulation of the questions was based on the existing literature on working capital management practices, with particular reference to the studies of Fatoki (2014), who explored the practices of immigrant entrepreneurs in South Africa, and Agyei-Mensah (2010, 2012), who analyzed small enterprises in the Ashanti region of Ghana. These studies provided a valuable framework for constructing a comparable and contextually adapted instrument for the Albanian setting. In addition to adapting elements from the literature, the questionnaire also includes other questions formulated with the aim of creating a more comprehensive profile of the analyzed firms and of better exploring the phenomenon. The questionnaire was administered online and consisted mainly of closed-ended questions, along with some open-ended ones, in order to provide a more comprehensive overview of the practices of the participating businesses. Although the questionnaire was distributed through several digital platforms, only 37 responses were completed properly and considered valid for analysis. The questions were organized around key themes related to working capital management, such as inventory management, liquidity, credit sales, and short-term liabilities. Some questions were factual in nature, while others aimed to assess the attitudes and subjective experiences of small and medium enterprise managers. The collected data were analyzed in Microsoft Excel to summarize the quantitative information regarding decision-making, cash planning, inventory management, and credit policies. Meanwhile, the qualitative data from the open-ended questions were examined through content analysis, aiming to identify behavioral patterns and indicative expressions related to common and personal approaches to financial management based on the experiences and perceptions of decision-makers.

5. Findings and Discussions

5.1. Sample Description

Most of the 37 businesses surveyed have been operating for an average of 16 years, indicating a relatively mature presence in the market. Geographically, 21 of these firms are located within the Municipality of Vlora, while the others are situated in different areas. The predominant sectors of activity include food and beverage, tourism and accommodation, personal and aesthetic services, as well as retail trade and artisan production. In terms of annual turnover, 21 businesses reported earnings above 8 million ALL, whereas 16 businesses fell below this threshold. The majority qualify as micro-enterprises, employing between 1 and 9 individuals. Legally, 30 of these businesses are registered as sole proprietorships. Regarding the educational background of the business owners, 22 hold higher education degrees, primarily in economics, while the remaining owners have lower levels of formal education.

5.2. Decision-Making and Use of Tools

Financial decision-making in the majority of the surveyed SMEs appears to be strongly owner-driven, with over half of the decisions taken directly by the business owners themselves. While this gives flexibility, it often reflects a lack of delegation and structured financial roles. Notably, 33 out of 37 decision-makers reported having some level of financial or accounting knowledge, which suggests a good foundation, but knowledge does not always translate into formal practice, and their approach to planning remains largely intuitive and informal without written procedures or structured tools. While fiscal software is widely used, the adoption of additional financial tools is also increasing, with 27 businesses reporting usage beyond tax compliance systems. Supplier and payables management practices indicate a general reliance on credit-based purchasing among the surveyed SMEs. Out of 37 firms, 30 report buying on credit, and 34 specify payment deadlines in terms of days. Only a small number of firms, around seven, prefer to settle payments immediately. The majority postpone them depending on available liquidity, reflecting a reactive rather than proactive approach to managing outgoing cash flows, with limited coordination between cash inflows and outflows. While they attempt to maintain discipline, few have formal plans for when and how to pay.

5.3. Cash Management

However, when looking at cash management, the data reveal a mixed pattern. Although 31 businesses claim to prepare cash budgets, further content analysis indicates that these practices are often informal. In many cases, budgeting decisions rely on short-term judgment rather than structured and systematic planning. In cases of cash surplus, funds are typically reinvested into the business or used to cover personal or family needs. When facing liquidity shortages, most firms rely on owner equity or borrowing, showing limited access to formal financing. Regarding working capital, 21 businesses rely more heavily on current assets, whereas 16 firms emphasize fixed assets in their structure.

5.4. Inventory Planning

Inventory control and purchase planning remain largely informal and reactive across the surveyed SMEs. Inventory control is predominantly manual, only 3 firms utilize software solutions for inventory management, while the majority depend on manual or periodic stock checks. Inventory related decisions are commonly centralized in the hands of the owner and are rarely supported by analytical tools or structured planning processes. Planning practices tend to be ad hoc, and only a few businesses adopt structured models such as the Economic Order Quantity (EOQ). Reordering practices are typically triggered by stock depletion or immediate client demand, with minimal reliance on systematic sales forecasts. Although the Economic Order Quantity (EOQ) model is known in theory, only 2 firms report its actual application, and most base their replenishment decisions on thresholds determined personally by the owner. Books for inventory, cash, and creditors are maintained in most cases, but they are often manual or uncoordinated, and not integrated into a full financial system.

5.5. Credit Policies

On the credit side, only 9 firms have formal credit sales policies, even though 16 sell on credit. This gap can increase the risk of bad debts and irregular collections. The majority of firms do not conduct checks on customer creditworthiness prior to granting credit, exposing them to potential default risks. Collection practices are generally weak, while 12 firms have assigned an employee to follow up on receivables, the remainder rely on informal methods of tracking payments. Furthermore, only 20 firms report setting clear payment terms, and many fail to specify due dates, contributing to potential delays and inefficiencies in cash inflow management. Overall, credit control is inadequate and lacks proper organization, resulting in increased pressure on cash flow.

5.6. Key Patterns and Interpretations

Overall, the findings show that while financial awareness exists, planning remains ad hoc, and many decisions are driven by experience and necessity, not structured policies. This highlights the need for stronger internal systems, better use of technology, and clearer financial procedures among SMEs.

6. Conclusions and Recommendations

6.1. Main Conclusions

SMEs in Albania exhibit a combination of awareness and informality in managing working capital, where financial decisions are predominantly centralized in the hands of the owner, often without delegation or structured procedures. Key areas such as cash management, credit policies, and inventory planning are seldom formalized, leaving firms vulnerable to liquidity risks and operational inefficiencies. Although there is a basic level of financial literacy and some adoption of digital tools, most firms still lack integrated systems for financial control. Consequently, firms tend to base their decisions on intuition and short-term decision-making, reflecting a reactive rather than proactive approach to financial management. Therefore, the study suggests a clear need to build capacity in financial planning, encourage the use of more robust systems, and provide targeted training for SME decision-makers.

6.2. Study Limitations

The sample size was relatively small, with only 37 businesses participating, which means that caution should be exercised in generalizing these findings to the entire SME population in Albania. The data was self-reported, so the analysis relies on the honesty and interpretation of the respondents, which could introduce some bias especially on sensitive topics like financial practices. The study focused exclusively on working capital management. Long-term financial decisions, access to capital, or profitability measures were not analyzed. Finally, this was a qualitative and descriptive study, so while it reveals behavioral patterns and gaps, it does not provide statistical tests or causal relationships. Still, the insights are meaningful and can guide future research or policy interventions focused on improving SME financial practices in Albania.

6.3. Suggestions for Future Research

As this study was qualitative and descriptive and limited in scope, there are several directions where future research could build on these findings. First, increasing the sample size and expanding it to include SMEs from more diverse regions and industries across Albania is suggested. This would help us understand whether these patterns hold more broadly. Second, future studies could use quantitative methods to test specific relationships, for example, whether using cash budgets actually correlates with better liquidity or profitability. Another avenue is to go beyond working capital and examine other financial dimensions, such as long-term financing, investment planning, and profitability management. It would also be valuable to compare firms with formal systems against those with fully informal management, or to explore urban versus rural differences. Additionally, research could focus on financial training and technology adoption, for example does providing training or using ERP software change the way financial decisions are made? Finally, since many firms are family-run, gender roles and generational dynamics could offer insights into how financial practices evolve over time. These areas could not only enrich the academic understanding of SME financial practices but also help shape more effective policy and support programs.

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