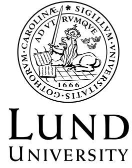

SCHOOL OF
ECONOMICS AND
MANAGEMENT

Variations in working capital management in Croatia and Finland

Variations in working capital management in organizations of different sizes and cultural contexts

by

Luka Kristijan and Max-Erik Björkqvist

May 2023

Master's Programme in Accounting and Finance

Supervisor: Elin Funck
Examiner: Johan Dergård

Abstract

This thesis investigates the variations in working capital management between Croatian and Finnish companies across different sizes. The study aims to gain a comprehensive understanding of the factors influencing these variations and the underlying reason behind them. The research adopts a mixed-methods approach, combining quantitative survey and qualitative semi structured interviews to collect data from both countries.

The quantitative survey, based on previous research done in the field, provides an overview of the market practices and preferences in Croatia and Finland. The survey assesses various dimensions of working capital management including the responsibility and policies, cash management, inventory management, accounts receivable management and accounts payable management, as well as other considerations regarding working capital management.

Through in-depth interviews with key financial decision makers, this study explores the diverse practices and strategies employed in working capital management across different sized companies. The qualitative analysis provides insights into specific decision-making processes, contextual factors and challenges influencing working capital management and its components.

The findings of this study reveal notable variations in working capital management practices in Croatia and Finland across different sized companies. Small companies, constrained by limited resources and financial constraints, often adopt flexible and informal policies with a high orientation on customer and supplier communication and relationships. Medium and large companies on the other hand tend to opt for more formalized and structured working capital management strategies while leveraging their larger resource base and better bargaining power. Findings also provide an insight into the cultural differences emphasizing high degree of collectivism and personal relationships in Croatia, while Finnish companies opted for more objective and individualistic approaches.

This research contributes to the existing knowledge on working capital management by providing a nuanced understanding of variations across size differences in Croatia and Finland. The findings have practical implications for managers, offering valuable insights into the factors influencing working capital management decisions. The study emphasizes the importance of tailoring working capital management strategies to the specific needs and challenges posed by different company sizes and different cultural contexts.

Keywords: working capital management, cash management, inventory management, accounts receivable management, accounts payable management, mixed-method research, variations, Croatia, Finland

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1 Introduction

1.1 Description of the problem area

Working capital management is a crucial aspect of corporate finance that falls under the umbrella of three broad areas. The other two areas, capital structure and capital budgeting, primarily deal with managing the long-term investments and financing decisions of organizations. Working capital management, on the other hand, distinguishes itself from the aforementioned by dealing with the management of organizations' short-term investments and financing decisions, and, thereby, ensuring that a company has sufficient resources to meet its short-term obligations (Kayani et al., 2019 pp. 353).

Traditionally, working capital management has academically been treated as a dark horse and gained less academic attention compared to the other two areas. This could be the case because the subject has been considered a routine matter for organizations and more frequent in nature, therefore, the impact it has on the organization compared to the other two areas is less significant. Additionally, decisions regarding working capital management are reversible over time, unlike capital investments (Kayani et al., 2019 pp. 352-353; Pratap Singh & Kumar, 2014 pp. 173-174).

However, this changed after the global financial crisis in 2008 shed light on the subject. The main reason for this could be that liquidity shortages that have been pointed out as the main reason for the crisis (Kayani et al., 2019 pp. 352-353). The awoken interest in working capital management has been well pointed out by Pratap Singh and Kumar (2014), who in their study show an upward trend of research regarding the subject after the financial crisis. Correspondingly, they show that the vast majority of the studies regarding working capital management are concentrating on the relationship between working capital management and firm performance (Pratap Singh & Kumar, 2014 pp. 178).

In recent times, the topic has gained additional traction with the rise in entrepreneurial spirit worldwide. According to the Global Entrepreneurship Monitor Report for 2022-2023, there is a significant rise in new business ventures over the past few years. This brings the topic of working capital management to the forefront in today’s business as it is crucial for firm performance and survival, especially in the early stages of company development (GEM, 2023).

Prior research on working capital management has mainly concentrated on a single-country setting and there has not been enough research conducted in a multi-country setting to compare findings across different cultural contexts (Pratap Singh & Kumar, 2014 pp. 180). One of the few authors that have conducted research regarding working capital management in a multi-country setting are Belt and Smith (1991), who compared working capital practices in the USA and Australia. The findings show that there is a clear difference between how working capital management is conducted between the two countries (Pratap Singh & Kumar, 2014 pp. 180).

When it comes to size, previous research has overlooked the distinction between various sizes of organizations when examining the effects of firm size on working capital management. However, the findings regarding the influence of firm size on working capital management lack consistency (Pratap Singh & Kumar, 2014 pp. 186-188). Furthermore, researchers have

expressed a urging need for future research regarding working capital management in a multi-country setting based on qualitative data. This would help in better understanding how practices have changed over time, as well as to recognize cultural differences on an international scale (Koury et al., 1998 pp. 7).

The following section of this paper will present the purpose of our study along with the research questions we aim to answer.

1.2 Purpose and research questions

The purpose of this study is to examine the impact different organization sizes have on working capital management strategies and techniques. Specifically, the study will investigate the practices of organizations operating in Croatia and Finland. Additionally, we have sought to explore potential variations in culture that may impact the strategies and techniques employed in the two countries.

The findings of our study will enhance the understanding of working capital management practices in diverse organizational contexts and may be used to inform entrepreneurs, as well as current business owners, regarding potential variations and cultural differences present in working capital management.

The specific research questions we aim to answer are as follows:

RQ 1: "How do the differences in organizational size impact working capital management strategies and techniques in Croatian and Finnish organizations?"

RQ 2: "Do the cultural differences between Croatia and Finland impact working capital management strategies and techniques?"

1.3 Structure

The following chapter of our paper provides the theoretical foundation for the thesis. It introduces the terminology surrounding working capital management and presents the key components of working capital management. Additionally, the chapter explores the relevant theoretical perspectives for our paper and presents the results of prior research regarding the subject. The theory section is followed by the method section of our paper. The method section of our paper presents the methodology of our paper. The aim of the chapter is to motivate our method choice for our paper. Furthermore, the sampling method, approach, reliability and limitations of our paper are presented. In the findings section of our paper we cover the main findings of our research. The aim of the chapter is to analyze the data collected. After presenting our findings, we discuss the results of the paper. In this chapter we interpret the data presented in the findings chapter and relate it to the theoretical foundation of our paper. The sixth chapter is the final chapter for our paper. Here we draw conclusions, critique our paper and make proposals for further research.

2 Theory

2.1 Working capital management

Harris (2005) in his article "Working Capital Management: Difficult, but Rewarding" discusses the importance of working capital management in organizations. Harris (2005) argues that the concept of working capital management in its most simplistic form can be defined as the practice *"to ensure that the organization is able to fund the difference between short-term assets and short-term liabilities (Harris, 2005 pp. 52)"*. It is however, important to understand that this definition in practice, is far too simplistic and an inaccurate representation of identifying the appropriate levels and the core drivers of working capital, which again can lead to organizations struggling to ensure adequate level of cash in hand for when it is needed (Harris, 2005 pp. 52-54).

Deloof (2003) in his article "Does Working Capital Management Affect Profitability of Belgian Firms?" investigates the relationship between working capital management and the profitability of Belgian companies. He argues that working capital management can be regarded as a crucial part of an organization's financial management and must be managed efficiently, as it has a significant impact on the organization's profitability and therefore, performance (Deloof, 2003). In addition to profitability and performance, Harris (2005) argues that by ensuring that the organization has appropriate levels of working capital, it can minimize risk and help organizations in being prepared for uncertainties (Deloof, 2003 pp. 573; Harris, 2005 pp. 52-54).

By incorporating the aforementioned definition by Harris (2005) with Knauer and Wöhrmann's (2013) definition of *"management of a company's current assets and current liabilities (Knauer & Wöhrmann, 2013 pp. 79)*, we can develop our own interpretation of working capital management in order to address the subject. Our proposition is that working capital management can be thought of as the management of an organization's current assets and liabilities to ensure that there is sufficient liquidity to fund its operations and meet its short-term financial obligations.

The remainder of this chapter is dedicated to equipping the reader with the essential tools that are needed to understand the context of our paper. We will start by presenting the role working capital management plays in the context of corporate finance. Furthermore, we will introduce the main components and distinguish between different strategies and techniques used in working capital management. We will then move on to presenting the findings of prior research regarding working capital management and explain the main theoretical perspectives that are relevant for our paper. We will then end with a conclusion of the chapter.

2.1.1 Gross working capital vs net working capital

Two common terms in working capital management are gross working capital and net working capital. These terms can be considered as essential terms to distinguish between and therefore, we will begin this section with a concise introduction and a definition of the distinction between the two.

Working capital management theory traditionally focuses on three components of an organization's current assets that make up for the vast amount of the working capital investment in most businesses. These three components are cash, account receivable and inventories (Deloof, 2003; Knauer & Wöhrmann, 2013 pp. 79; Welch, 2022 Chapter 14 pp. 24).

The second part of an organization's working capital investment consists of current liabilities. Traditionally, accounts payable make up for the vast amount of an organization's current liabilities (Knauer & Wöhrmann, 2013 pp. 79). However, organizations that are in financial distress or have a temporary cash shortage, might also need to take out short-term loans in order to finance their account receivables or inventories. These short-term loans are also accounted for as current liabilities (Brealey et al., 2011 pp. 777).

To conclude, the investment needed for an organization's current assets is traditionally called gross working capital. Net working capital on the other hand, equals the difference between the organization’s current assets and current liabilities (Knauer & Wöhrmann, 2013 pp. 79).

Our study focuses on the net working capital of organizations. Hence, any reference to working capital management refers to the management of the organization's net working capital.

2.2 The components of working capital management

As earlier stated, working capital management can be regarded as a crucial part of an organization's financial management and must be managed efficiently, as it can lead to increased profitability, improved liquidity and better overall performance (Deloof, 2003 pp. 573). Furthermore, working capital management can reduce financial risk and help organizations in being prepared for uncertainties (Harris, 2005 pp. 52-54).

In the following section, we will examine the different components of working capital management, including cash management, inventory management, accounts receivable management and accounts payable management. Each of these components play a critical role in managing the organization's current assets and ensuring that it has the necessary resources to meet its short-term obligations.

Through a detailed analysis of these components, we will gain a better understanding of how they interact and impact the overall financial health of the organization.

2.2.1 Cash management

Cash has a crucial role in working capital management because it is the most common asset used to conduct business transactions and payments. As organizations work on achieving the most optimal working capital position, it is important to understand that cash goes hand in hand with different types of costs and therefore, it has an impact on the organization’s profitability (Brealey et al., 2011 pp. 766-767; Sagner, 2014 Forms of Cash section).

Sagner (2014) distinguishes between three separate categories of cash. The first category can be regarded as the traditional form of cash that has been deposited into a bank account. This category also includes cash that is in the process of being collected or disbursed. The second category comprises cash that has been borrowed through a pre-arranged line of credit in a bank. The third and last category encompasses short-term investments that can be sold and quickly

converted into hard cash. To achieve the most desirable working capital position, organizations need to manage each of these categories of cash proactively (Sagner, 2014 Forms of Cash section).

Brealey et al. (2011) argue that all assets belonging to the same risk class are priced in such a way that their owners receive the same expected marginal benefit. This also applies to cash. The interest earned by, for example, holding a US treasury bill is equivalent to the benefit obtained from holding cash. More specifically explained, although cash doesn't generate any interest for the owner, unlike the treasury bill, its advantage lies in its liquidity. In terms of assets, liquidity is measured by how easy it is to convert the asset into cash, which is regarded as the most liquid asset. Therefore, different assets are associated with different degrees of liquidity. Staying liquid is a crucial aspect for organizations as it facilitates their ability to spend cash. Therefore, the description of cash as a "raw material" that organizations need in order to conduct business would seem quite accurate (Brealey et al., 2011 pp. 766; Van Horne, 2002 pp. 429).

As earlier indicated, an organization faces costs and benefits for holding cash. On the one hand organizations need to have cash available because the asset is involved in almost all business transactions and therefore, a company that lacks cash cannot operate. If the organization needs to sell the securities that it has obtained every time it needs cash, it will lose money on transaction costs. On the other hand, a company that holds too large inventories of cash, will miss out on interest that it could have gained if the excess cash would have been invested and therefore, see the marginal benefit of liquidity diminish. Both previously described situations have an impact on the organization's profitability. Therefore, organizations should manage their cash in a way that allows them to maintain liquidity up to the stage where the marginal worth of the liquidity is equivalent to the value of the interest sacrificed (Brealey et al., 2011 pp. 766).

Organizations of all sizes need to balance the costs and benefits of holding cash, but for smaller organizations, this balance is more critical. Since small organizations typically have less cash to invest than larger organizations, the transaction costs of buying and selling securities can be more expensive in relation to the interest gained. Therefore, smaller organizations may not have the flexible option to buy and sell investments on a daily basis (Brealey et al., 2011 pp. 766-767).

One way organizations can deal with the challenge is sweep programs, which are offered by banks as a means to generate interest on excess funds organizations hold in their accounts. Sweep programs work as follows: The organization opens two accounts: a checking account and an investment account. The organization then establishes predetermined limits for its cash balance on its checking account. Any surplus funds exceeding the set limit are automatically transferred from the checking account into the investment account, from where they are invested in short-term interest-bearing investments with low-risk (i.e., money market mutual fund). Similarly, if the organization's checking account happens to fall below the predetermined limit, funds are automatically transferred back from the investment account to restore the balance of the checking account. By utilizing sweep programs organizations can gain interest on their excess cash with a relatively low risk, rather than simply holding it in their account and missing out on the value of the interest (Brealey et al., 2011 pp. 767; Sagner, 2014, Sweeps section).

2.2.2 Inventory management

Inventories are collections of raw materials that organizations keep in stock with an intended purpose to sell to customers or use in the organization's production process. Inventories are not solely restricted to just raw materials needed. Organizations also often hold unfinished goods and finished goods in their inventories while waiting for the next natural stage in the production process. This may involve waiting for the goods to be sold, or for shipment to their final destination. Inventory is therefore regarded as an organization's current asset (Brealey et al., 2011 pp. 758).

The inventory size depends on the needs of the organization and isn't something that an organization is obliged to have. However, holding either too little or too much inventory can result in costs for the organization. The cost of holding too little inventory is traditionally that the organization needs to purchase raw materials at higher prices due to smaller order quantities. Furthermore, not holding an inventory may create production and/or delivery delays, which can amount to even greater costs for the organization. Additionally, organizations with too little inventory may face stockouts, which again may result in lost sales. To mitigate these costs, organizations often choose to initially order larger quantities of raw materials than they immediately need (Brealey et al., 2011 pp. 758).

On the flip side of the coin, there are organizations that hold too large inventories that face other types of costs. Firstly, they need to allocate space for storage. Typically, organizations, especially smaller ones, resort to renting storages for their inventories. This creates the burden of rent payments for the organization. Secondly, the raw materials need to be insured to mitigate the risk of loss due to, for example, a fire or theft. Finally, the funds tied up in inventory do not create any interest for the organization and unsold goods are not beneficial for organizations (Brealey et al., 2011 pp. 758).

The process of determining the optimal size of inventory is called inventory management and is a critical part of working capital management. Inventory is regarded as a significant part of an organization's working capital, and effective inventory management helps organizations to ensure that the right level of inventory is held. By doing so, the optimal amount of working capital is tied up in the organization's inventory, thereby freeing up working capital that can be allocated to other value maximizing activities.

One example of a way organizations can deal with inventory management is implementing and adapting the just-in-time (JIT) method. The JIT method is a strategy that has the aim to minimize the amount of inventory a company needs to hold. The method's idea is that an organization can function by receiving its delivery of raw materials needed just in time to be used in production or sold to customers. By adopting the JIT method, organizations don't need to stockpile large quantities of raw materials because they can count that they will receive delivery just before it is needed. It is however important to note that JIT requires accurate forecasting of demand and continuous follow-ups and monitoring to function efficiently (Brealey et al., 2011 pp. 760).

2.2.3 Accounts receivable management

Another important part of an organization's current assets and working capital management is account receivables. Accounts receivables mainly refers to money that its customer or clients owe the organization for products and services that have already been provided. In other terms, the organization has sold its products or services on credit and is now expecting the customers to pay its arrears (Brealey et al., 2011 pp. 760).

As such, managing account receivables effectively is an important task in the overall working capital management strategy. There are several different account receivable management strategies and techniques discussed in the literature that organizations can implement to enhance payment from its customers. Some of these techniques are appropriate credit limits, cash discounts for payment before due date, monitoring customer payment behaviors, and implementation of collection policies (Brealey et al., 2011 pp. 761; Preve & Sarria-Allende, 2010 pp. 78-81).

It is common practice for organizations to implement cash discounts to customers who pay before the final date. The cash discounts are usually relatively large and further encourages customers to pay in a timely manner (Brealey et al., 2011 pp. 761). As part of setting up a strategy, a strong credit policy needs to be in place in order to create a balance between risk and rewards for the company. This strategy also incorporates the need to monitor and evaluate customer creditworthiness regularly. By adhering to the policy, the company can lower the risk of bad debts. Accounts receivable management can also benefit greatly from the implementation of technology. The use of electronic invoicing, automated payment systems, and credit scoring models helps the effective adherence to the policy (Preve & Sarria-Allende, 2010 pp. 74-82).

Implementation of effective accounts receivable management strategy can help companies reduce risk of bad debt, improve cash flow, and maintain healthy stakeholder relationships. This in turn, can lead to improved operational efficiency of the company.

2.2.4 Accounts payable management

Accounts payables consist of money the organization owes to its suppliers or vendors on short-term for goods or services that it has purchased on credit. Usually, accounts payables make up for the vast majority of an organization's liabilities. In fact, according to Preve and Sarria-Allende (2010), accounts payable make up for 9,7% of the total assets of large organizations. This number is even higher for smaller organizations (Preve & Sarria-Allende, 2010 pp. 97).

Accounts payables may be thought of as accounts receivables but the other way around, meaning that the organization who was collecting payments, this time is the customer. Therefore, like in the case of accounts receivables, there are strategies that must be taken into account. An organization accounts payables strategy has an important part to play in an organization's working capital management strategy because it is connected directly to the company's relationship to the suppliers (Preve & Sarria-Allende, 2010 pp. 98-99).

Preve and Sarria-Allende (2010) emphasize the importance of effective accounts payable management and the implementation of its parts for the health of the business. As a part of this strategy, the company needs to implement an effective payment policy that helps them bridge

the gap between paying the suppliers and the need to maintain a healthy cash flow. Setting up this strategy and maintaining the policy requires a negotiation of favorable payment terms with the suppliers and the use of electronic systems in order to increase the efficiency of the payable processes. Through the use of this strategy, companies improve their operational efficiency, reduce costs, and improve their cash flows which is the overall goal of working capital management (Preve & Sarria-Allende, 2010 pp. 98-100; Sagner, 2014 pp. Elements of Payables Management, Developing Payables Policies section and Electronic Disbursements section).

2.3 Prior research

The following section is dedicated to presenting prior research regarding working capital management. Our aim of this section is to provide an overview of the existing literature, its findings, trends and research gaps in the field of research. Through the analysis, our aim is to build a strong foundation for our paper and contribute to the ongoing discussion regarding working capital management.

As earlier indicated, working capital management plays a vital role in ensuring that an organization has sufficient resources to meet its short-term obligations (Kayani et al., 2019 pp. 353). Therefore, it is quite surprising to learn that it as a field of research has only gained interest among academics, practitioners, and other relevant parties following the occurrence of the financial crises. This could be the case because the subject has traditionally been considered a routine matter for organizations and therefore, the impact it has on the organization as an overall has been regarded as quite insignificant. Additionally, decisions regarding working capital management are reversible over time, which might also affect the perception of the importance of working capital management (Kayani et al., 2019 pp. 352-353; Pratap Singh & Kumar, 2014 pp. 173-174).

When it comes to the prior research regarding working capital management, Pratap Singh and Kumar (2014) in their literature review "Working capital management: a literature review and research agenda" analyzed 126 journal articles on working capital management that were published between the years 1980-2012. The authors classified the articles into three categories, namely empirical, survey and conceptual work on working capital management. The authors found that empirical was the most dominant research method used in 85,71% of the articles, while conceptual and survey methods represented only approximately 8,73%, and 5,56% respectively, of the research methods used in the articles (Pratap Singh & Kumar, 2014 pp. 176-178).

Furthermore, Pratap Singh and Kumar point out that the vast amount of research conducted regarding working capital management is related to measuring the impact working capital management has on firm profitability and comparing various working capital techniques and methods in practice (Pratap Singh & Kumar, 2014 pp. 179-180).

When it comes to different industry settings, prior research has not been restricted to any particular industry (Pratap Singh & Kumar, 2014 pp. 180). Several studies have also focused on how different working capital management routines and techniques impact small- and medium-sized organizations, even if the vast majority of research indeed has focused on large-sized organizations (Pratap Singh & Kumar, 2014 pp. 188). Narender et al. (2008), for example, found that organization size has a significant influence on working capital management.

Overall, the findings regarding the influence of organization size on working capital management are, however, inconsistent. Some studies in-fact indicate that debt ratio and firm leverage plays a more crucial role (Pratap Singh & Kumar, 2014 pp. 186).

One of the main takeaways that Pratap Singh and Kumar (2014) point out, is that prior research on working capital management has mainly concentrated on a single country setting and that there has not been enough research conducted in a multi-country setting to compare findings across different cultural contexts (Pratap Singh & Kumar, 2014 pp. 180). One of the few authors that have conducted research regarding working capital management in a multi-country setting are Belt and Smith (1991), who compared working capital practices in the USA and Australia. The findings show that there is a clear difference between how working capital management is conducted between the two countries. Policy setting and daily management of Australian organizations for example, seem to be more centralized compared to organizations in the USA, while organizations in the USA seem to have more advanced inventory and credit collection. Additionally, the management of marketable securities is more sophisticated in the US, compared to Australia (Pratap Singh & Kumar, 2014 pp. 182-183). Similar but slightly modified survey methods have also been used later on in order to make comparisons between countries, e.g., Koury et al. (1998) in Canada, and Tesfaand and Chawla (2018) in Ethiopia. However, the findings from these studies have been inconsistent (Pratap Singh & Kumar, 2014 pp. 188; Tesfaand & Chawla, 2018 pp. 23).

2.3.1 Previously expressed suggestions for future research

Pratap Singh & Kumar (2014) argue that there is a gap in the field of research regarding working capital management in a multi-country setting based on qualitative data. Furthermore, Koury et al. (1998) suggest in their paper ”Comparing Working Capital Practices in Canada, the United States, and Australia: A Note” that it would be beneficial for the field of research if more similar studies regarding working capital management would be conducted in other countries, in order to better understand how practices have changed over time, as well as to recognize cultural differences on an international scale. Additionally, the authors recognize that due to the digitalization of society, it is probable that there has emerged or formed variations in the strategies and techniques organizations manage at least certain components of their working capital. Therefore, it would also be beneficial for the field of research to explore these (Koury et al., 1998 pp. 7; Pratap Singh & Kumar, 2014 pp. 188).

2.4 Theoretical perspectives

In the following section we will introduce three theoretical perspectives that are relevant for our paper. Specifically, we will introduce trade-off theory along with two important theoretical frameworks for our paper, namely resource-based theory, and cultural dimensions theory. Furthermore, in the context of these frameworks, we will explain how strategic variations, cultural differences and availability of resources may impact working capital management practices of organizations operating in different countries.

2.4.1 Trade-off theory

The trade-off theory has its roots from the debate regarding the Modigliani - Miller irrelevance proposition. The trade-off theory is a financial theory that applies to several financial decisions organizations have to make and involves weighing the benefits and costs of the different options available. According to the trade-off theory, organizations face these kinds of trade-off situations when making decisions regarding available financing options, where organizations must choose between different approaches that offer varying advantages and drawbacks. One classic example that is often used is the advantages (tax benefits of debt) and disadvantages (the costs of financial distress) that are associated with leverage (Frank & Goyal, 2011 pp.141).

The trade-off theory is a highly relevant theoretical perspective that is often employed in papers discussing working capital management. One example is “The determinants of working capital management and firms’ performance of textile sector in pakistan” by authors Tahir and Anuar (2016). In the context of our paper, the trade-off theory is relevant because working capital management involves organizational considerations regarding liquidity, profitability and risk. Furthermore, it is expected that organizations undergo trade-offs regarding advantages and drawbacks when managing their working capital.

Organizations that maintain high levels of liquidity can usually save on transaction costs and handle its short-term expenses in a good manner. However, if an organization is too liquid, it can see the benefits of being liquid diminish and experience lower profitability due to holding too large amounts of non-interest-bearing assets (Brealey et al., 2011 pp. 766; Tahir & Anuar, 2016 pp. 608-609).

Organizations that operate with lower levels of investments in working capital may be more profitable. However, organizations with too low levels of investments in working capital can risk financial distress, disruptions and a loss in sales. Additionally, these organizations might have to borrow funds at increased interest rates or sell assets to meet its short-term obligations. This will result in transaction costs for the organization (Brealey et al., 2011 pp. 758-759, 766; Tahir & Anuar, 2016 pp. 608-609).

Organizations that hold excess working capital may enjoy a reduced risk of financial distress, but again, it might come at the cost of lower profitability due to funds tied up in non-interest-bearing assets (Brealey et al., 2011 pp. 766; Tahir & Anuar, 2016 pp. 608-609).

The trade-off theory seeks to find the optimal balance between the advantages and drawbacks organizations face (Frank & Goyal, 2011 pp. 141). By finding the right balance, organizations can minimize the potential negative consequences of their financing decisions while maximizing their benefits.

2.4.2 Resource-based theory

Utami and Alamanos (2022) suggest that resource-based theory has its roots from the 1980s, but that it was Barney's (1991) article "Firm Resources and Sustained Competitive Advantage" that truly marked the evolving point for the theory (Utami & Alamanos, 2022 pp. 1).

Barney (1991) argues that when an organization's strategy and resources cannot be imitated by any current or potential competitors, it has gained sustained competitive advantage (Barney, 1991 pp. 102). An organization's resources can be classified into three categories, namely physical capital resources, human capital resources and organizational capital resources. Physical capital resources are physical assets like for example buildings. Human capital resources and organizational capital resources are not physical in nature but are often more valuable for the organization. These resources could for example include human capital or brand reputation (Barney, 1991 pp. 101-102).

The reason an organization's intangible resources often are more valuable than the physical assets is that they are often more difficult for competitors to copy or substitute. Therefore, Barney (1991) suggests that for organizations to gain sustained competitive advantages its resources must be valuable, rare, imperfectly imitable, and non-substitutable. These specific attributes can be thought of as measures of how useful these resources are for the organization in generating sustained competitive advantages (Barney, 1991 pp. 105-106).

The resource-based theory is relevant for our paper in the sense that it suggests that a company's resources and capabilities play a crucial role in achieving a competitive advantage, e.g., its success (Barney, 1991 pp. 106). However, the organization's internal capabilities and resources available may vary across countries. Companies operating in different countries with different cultural settings may therefore need to adapt their working capital management strategies to account for cultural differences and the varying resource availability. Additionally, it is our expectation that companies of different sizes have varying resources to utilize and therefore have more flexibility in their working capital management strategies.

2.4.3 Cultural dimensions theory

Hofstede's cultural dimensions theory is a framework that was developed by Geert Hofstede in 1980. The framework is often applied in research in order to recognize and explain the cultural differences between countries and to understand how organizations conduct business in different cultural settings. Originally Hofstede's cultural dimensions theory had four dimensions implemented, namely individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity. Later, the framework was further expanded by the implementation of the two additional dimensions of indulgence/constraint and short-term/long-term orientation (Abdelrahim, 2021 pp. 468). The differences between the two countries in regard to Hofstede's cultural dimensions is showcased in the table below.

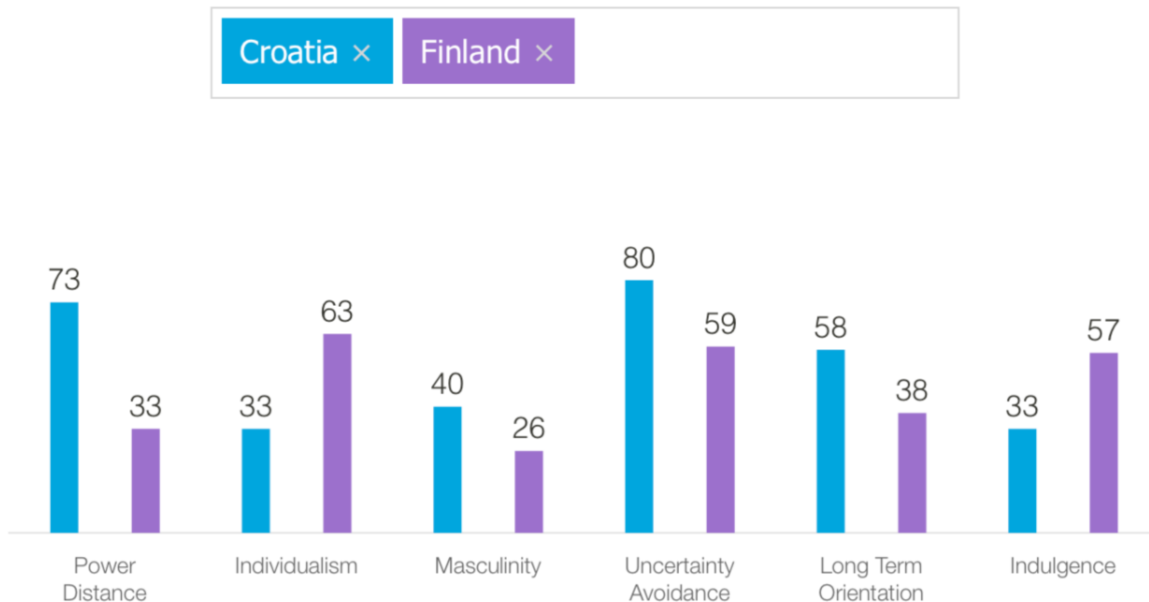

Figure 1: Hofstede's cultural dimensions score comparison for Croatia and Finland (Hofstede Insights, 2022).

Hofstede's cultural dimensions theory is a relevant theoretical perspective for our paper as it suggests that the variations and cultural differences between Croatia and Finland, the two main countries of our study, can influence the organizational behavior, decision-making procedures and communication styles. Therefore, it is expected that culture also has an impact on working capital management and the strategies organizations implement in regard to it.

2.5 Conclusion of the chapter

The purpose of this chapter has been to lay the groundwork of our paper and equip the reader with the necessary knowledge and tools to navigate the remainder of our study. We have defined working capital management and introduced its main components in order to establish a frame that serves as the basis for our analysis. Afterwards, we presented the crucial role working capital management has in the broader context of corporate finance. This was done as understanding its role allows us to dive deeper into the subject matter and study the specific areas, we are keen to gain an understanding of.

Furthermore, we have introduced the main theoretical perspectives that are relevant for our paper. Specifically, we introduced trade-off theory and two important theoretical frameworks, namely resource-based theory and cultural dimensions theory. These theoretical perspectives allow us to analyze the influence of strategic variations, cultural differences, and resource availability on working capital practices in different countries. This knowledge will prove to be crucial in addressing the research questions of our study. Additionally, we have presented the results of prior research and motivated the need for further research by presenting the results of Pratap Singhs and Kumars (2014) literature review.

The following chapter is dedicated to presenting the methodology of our paper.

3 Method

In the third part of this paper, we will introduce and motivate the research method we have chosen for our paper. After presenting our method choice, we will describe our approach and present the sampling method we have used in our study. We will end the chapter by discussing the reliability and limitations of our paper.

3.1 Choice of method

The purpose of our study is to describe and gain an understanding of any potential variations in the application of working capital management across small, medium, and large-sized companies, as well as explore any potential cultural differences in the strategies and techniques employed in working capital management in Croatia and Finland.

Because the subject of study is quite complex, we have chosen to utilize qualitative semi-structured interviews as our main data-collection method. Qualitative semi-structured interviews are a very versatile and widely applied data collection method that is often applied when the subject of study is considered complex or when the researcher aims to gain a deeper understanding of the interviewee's personal experiences and perspectives regarding the subject of study (Galletta, 2013 The Semi-Structured Interview: Space for the Empirical and Theoretical section).

A semi-structured interview can function as the sole data collection method when conducting research or it can be combined with another data collection method to form a so-called hybrid model (Galletta, 2013 The Semi-Structured Interview: Space for the Empirical and Theoretical section). Therefore, we opted for a hybrid model for our paper, where we first sent a quantitative survey to a broader range of organizations operating in Croatia and Finland. The survey worked as a form of "temperature measure" for our paper. From the responses we received to our survey, we then chose four participants to undergo a qualitative semi-structured interview with.

By opting a hybrid model, we were able to gain unique data that would otherwise have been unobtainable through only utilizing our quantitative survey. By conducting the interviews after receiving results of our survey, we were able to dig deeper into the subject and therefore, gain more valuable information. Similarly, our paper's reliability was enhanced by the fundamental flexibility inherent in our chosen methodology. This flexibility allowed us to establish a substantial level of reciprocity, allowing us the valuable opportunities to ask follow-up questions, seek clarification, and engage in critical reflection with the interviewees whenever necessary. (Bryman, 2012 pp. 179; Galletta, 2013 The Semi-Structured Interview: Space for the Empirical and Theoretical section; Schrauf, 2016 pp. 505).

The following two sections of our paper are dedicated to describing and examining our applied data collection methods further. The last section of this chapter is dedicated to discussing the reliability and limitations of our paper.

3.2 Sampling method and approach

The survey previously used by Belt and Smith (1991), Koury et al. (1998) and Tesfaand and Chawla (2018) worked as the base of our survey and therefore, the majority of the questions used in our survey were similar to the questions in Koury et al. (1998) study. However, some modifications were necessary in order for the survey to better suit our purpose (Koury et al., 1998 pp. 9-10).

Researchers have previously expressed that the digitalization of society is likely to have led to the emerging of variations in the strategies and techniques organizations use to manage at least certain components of their working capital (Koury et al., 1998 pp. 7; Pratap Singh & Kumar, 2014 pp. 188). Therefore, we found it to be beneficial to add questions regarding the subject of digitalization and explore if this in fact is the case. In the end we ended up with a survey consisting of a total of 20 questions.

The survey was sent out to a total number of 60 organizations, with half of the organizations operating in Croatia and the other half operating in Finland. Each country was further divided in three ways for small-, medium- and large-sized organizations. As a result, we sent a total of 10 surveys to each category within each country. Financial organizations were not included due to their notably different leverage ratios, which could potentially affect our results in a negative way.

The division regarding organization size was made employing the same standards as Suomen Yrittäjät (2020). Therefore, small-sized organizations employ less than 50 people. Medium-sized organizations employ between 50 and 249 people and large-sized organizations employ over 249 people (Suomen Yrittäjät, 2020).

We have implemented purposive sampling for our paper. Purposive sampling involves the researcher evaluating and selecting the respondents that will be used in the study. To obtain the best possible data, it is essential that the respondents are selected based on their relevance in regard to the central research questions and have a sufficient level of knowledge and experience within the subject matter (Gimbel & Newsome, 2018 pp. 507).

We selected survey recipients based on their positions in their respective organizations, as we anticipated that their roles would provide them with relevant expertise and knowledge regarding the subject of study. The individuals we chose to send the survey to operate in roles with titles like for example, CEO, CFO, Controller and alike. A few respondents were included in our sample whom we know on a personal or professional basis. These individuals were included because of their knowledge and insights of the subject area of our study, but also because we expected a higher response rate from them.

The survey that we used was created using the website Typeform.com and the link to the website was sent to the selected participants via email, along with an introduction text, research questions, explanation of the purpose of the study and an open invitation to participate in a semi-structured interview. The anonymity for the participants of the survey was also guaranteed in the email.

Preparing an interview guide is a crucial step in ensuring the success and smoothness of the semi-structured interviews. Therefore, while awaiting answers to our survey, we carefully prepared an interview guide based on our survey questions, which can be found in the appendix of this paper (Galletta, 2013 The Semi-Structured Interview: Space for the Empirical and Theoretical section).

Semi-structured interviews allow for a very flexible approach to the interviews. Therefore, we left room for potential new questions that would arise during the interview. Similarly, this technique allows us to ask for clarification and follow-up questions in the interviews when the situation requires it. This also serves our purpose very well, as the subject of study is quite complicated (Galletta, 2013 The Semi-Structured Interview: Space for the Empirical and Theoretical section).

Along with answers for our survey, we received acceptances from individuals who agreed to participate in our semi-structured interviews. Traditionally, qualitative research relies on purposive sampling and small sized samples of the population. Therefore, the number of respondents in a qualitative study sample is usually very small and considered less important compared to quantitative research. The idea is simply to pick the respondents who can provide the most accurate information in regard to the research questions in the study (Davies & Hughes, 2014 pp. 8-9).

Therefore, we decided to conduct a total of four separate qualitative semi-structured interviews. Among the participants, two were CFOs from Croatia, one from a small-sized organization and the other from a medium-sized organization. The third participant was a CFO from Finland, working for a medium-sized organization, and the fourth participant was the founder and CEO of a small Finnish company. The first interview was held 16th of May, the two following were held on the 17th of May and the last one was held on the 18th of May 2023. The interviews lasted between 40-50 minutes.

3.3 Data analysis

3.3.1 Survey

The survey was closed down after two weeks, after which we downloaded the answers and results from Typeform.com and collected them into Microsoft Excel. This was done in order to easily be able to analyze the results with the help of visualization tools. The survey we used, along with the results can be found in the appendix of this paper. The questions in the survey have been marked with the symbol "*" for the questions that are the same as in the Koury et al. (1998) paper, and "**" for the questions that are the same as in the Koury et al. (1998) paper but where we have added additional answer options for the respondents to choose from or where we have used different answer selection methods.

The overall answer ratio for our survey was 31,67%. The answer ratio for Croatia was precisely 30%, while the answer ratio for Finland was slightly higher at 33,33%. The table below showcases the answers ratios per organizational size.

Organization size	Croatia	Finland
Small	50% or 5/10	50% or 5/10
Medium	20% or 2/10	30% or 3/10
Large	20% or 2/10	20% or 2/10
All sizes	30% or 9/30	33,33% or 10/30

Table 1: Answer ratios per country and organization size.

3.3.2 Semi-structured interviews

The semi-structured interviews were conducted in Croatian, Finnish, English and Swedish, depending on the respondents' own preferences. The interviews were recorded and transcribed within 48 hours after the interviews had taken place. When the transcription was complete, the original audio files were deleted. The data that we collected during the interviews was then manually coded. We decided to use open coding as it is a common and well recognized way to break down, organize, categorize and compare qualitative data gained from interviews (Bryman, 2012 pp. 569).

As we systematically coded the data using labels such as "WCM responsibility," "policy," "ERP system," and "cash management", we noticed themes, patterns, similarities and differences clearly beginning to emerge from the data as we repeatedly went through it. The data was then systematically reduced to condense and summarize the data within each theme in order to draw conclusions for our findings. After the data obtained from the interviews had been processed and analyzed, the transcripts were also deleted to ensure the respondents' confidentiality.

3.4 Reliability and limitations

When conducting semi-structured interviews, the reliability of the information gained depends on the sample used in the data collection phase and their view of the subject of study. As previously stated, qualitative research relies on purposive sampling and small sized samples of the population. Therefore, it is important to acknowledge that there might form a bias, where the data gained does not accurately reflect the reality of the whole population (Davies & Hughes, 2014 pp. 8-9).

To enhance the reliability and validity of our paper's results, we employed a triangulation approach. By utilizing multiple methods and sources of data in our study, we aimed to establish a higher level of confidence in our findings (Bryman, 2012, pp. 392). Additionally, we used respondent validation to further ensure the reliability of the gathered information. This involved sharing the transcripts of the interviews with the respondents themselves, seeking their validation and feedback. Only after receiving their confirmation, we proceeded with the analysis of the data. This process of validation was then repeated upon completion of the findings section to ensure accurate interpretation of the respondents' information and experiences (Bryman, 2012, pp. 391).

Prior research has shown the existence of industry specific variations in the strategies implemented to manage working capital. Therefore, it is expected that the validity and reliability of our results is affected by the industry the organization operates in. Furthermore, our paper is limited to studying the variation between two specific cultural settings, namely between the countries Croatia and Finland. Therefore, the results of our paper cannot be generalized on a global scale. Additionally, as has been stated in prior research, due to the digitalization of society, it is probable that there will emerge or form variations in the strategies and techniques organizations apply in managing their working capital. This indicates the validity of our results will be affected by the passage of time, new subject knowledge, technological innovations and improved processes (Koury et al., 1998 pp. 7; Pratap Singh & Kumar, 2014 pp. 188).

4 Findings

4.1 Survey

The following section of the study is dedicated to describing the results of our survey. The results have also been gathered in tables above each respective section in order to enable easier access and comparison. Tables provide an insightful overview regarding the respondents' answers and their patterns. Furthermore, the results are presented through a company size differentiation with an emphasis on differences between respective countries, if such deviations occur.

4.1.1 Working capital management policies and responsibility

	FI Small	HR Small	Total Small	FI Medium	HR Medium	Total Medium	FI Large	HR Large	Total Large
1. Responsible for WCM policy?*									
President	100%	60%	80%	0%	0%	0%	0%	0%	0%
CFO	0%	20%	10%	67%	0%	40%	100%	50%	75%
Board of Directors	0%	20%	10%	0%	100%	40%	0%	50%	25%
Controller	0%	0%	0%	33%	0%	20%	0%	0%	0%
Other	0%	0%	0%	0%	0%	0%	0%	0%	0%
Treasurer	0%	0%	0%	0%	0%	0%	0%	0%	0%
2. Nature of WCM policy?*									
Formal	20%	20%	20%	100%	100%	100%	100%	50%	75%
Informal	80%	80%	80%	0%	0%	0%	0%	50%	25%
3. Type of WCM policy?*									
Cautious (less risk)	40%	60%	50%	33%	0%	20%	50%	0%	25%
Situational	20%	0%	10%	67%	50%	60%	50%	100%	75%
Changes over time	0%	40%	20%	0%	50%	20%	0%	0%	0%
Aggressive (more risk)	40%	0%	20%	0%	0%	0%	0%	0%	0%

5. Frequency of policy review?*									
Whenever necessary	60%	100%	80%	100%	50%	80%	50%	50%	50%
Quarterly	20%	0%	10%	0%	0%	0%	50%	50%	50%
Monthly	20%	0%	10%	0%	0%	0%	0%	0%	0%
Semi-Annually	0%	0%	0%	0%	50%	20%	0%	0%	0%
Annually	0%	0%	0%	0%	0%	0%	0%	0%	0%

6. Discount rate used for WCM policy changes?*									
Average cost of capital	60%	60%	60%	67%	100%	80%	100%	50%	75%
Other	40%	40%	40%	33%	0%	20%	0%	0%	0%
Interest rate	0%	0%	0%	0%	0%	0%	0%	50%	25%
Cost of equity capital	0%	0%	0%	0%	0%	0%	0%	0%	0%
Hurdle rate not required	0%	0%	0%	0%	0%	0%	0%	0%	0%

Responses gathered from our survey indicate that individuals responsible for working capital management in organizations occupy different types of roles within the company, as the size of the organization itself increases. In small-sized organizations, the individual responsible for working capital decisions is the president or managing director. Our results indicate that responsibility tends to move downwards the hierarchy as the organization grows in size. In medium-sized organizations working capital management is usually the responsibility of the CFO or Board of Directors, while it tends to only be the responsibility of the CFO in large-sized organizations. This pattern seems to be fairly present in both countries, with Croatia displaying some level of variation within the group of small-sized organizations. As the organization size grows, our results indicate that policies regarding working capital management become increasingly formal, with responses showing mostly informal policies in smaller organizations and predominantly formal policies in medium- and large-sized organizations. Following the same pattern, most small-sized organizations choose a more cautious approach to working capital management, while medium- and large-sized organizations opt for a more situational approach. Although, it is worth noting that in Finland, small-sized organizations show a wider span of choices in this particular question, with responses indicating both aggressive and cautious approaches at similar levels.

When looking at the frequency of policy review, most small- and medium-sized organizations report doing it whenever necessary, while large-sized organizations being split between a set time period, namely “quarterly”, and whenever necessary. These results carry over between countries with minor variations in the group of small- and medium- sized organizations. When implementing changes in working capital policies during these reviews, organizations take into account the average cost of capital across all organizations, regardless of size. The responses are also identical for both countries, apart from a minor variation within large-sized organizations' responses.

4.1.2 Cash management

	FI Small	HR Small	Total Small	FI Medium	HR Medium	Total Medium	FI Large	HR Large	Total Large
7. Frequency of cash budgeting?*									
Monthly	20%	20%	20%	67%	50%	60%	100%	100%	100%
Quarterly	40%	20%	30%	33%	0%	20%	0%	0%	0%
Other	20%	40%	30%	0%	0%	0%	0%	0%	0%
Weekly	20%	20%	20%	0%	0%	0%	0%	0%	0%
Daily	0%	0%	0%	0%	50%	20%	0%	0%	0%
8. Level of cash at hand?									
Established guidelines	20%	60%	40%	100%	50%	80%	100%	50%	75%
Subjective judgment	80%	40%	60%	0%	50%	20%	0%	50%	25%
Cost balancing models	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other	0%	0%	0%	0%	0%	0%	0%	0%	0%
9. Transfers between cash and securities?*									
Subjective judgment	80%	80%	80%	67%	50%	60%	0%	50%	25%
Established guidelines	20%	20%	20%	33%	0%	20%	50%	0%	25%
Cost balancing models	0%	0%	0%	0%	50%	20%	50%	50%	50%
Other	0%	0%	0%	0%	0%	0%	0%	0%	0%

Cash budgeting within small-sized organizations has been divided quite equally over all of the given response options. The majority report doing it quarterly in Finland, while small-sized organizations in Croatian opted for the “other” response. This indicates that a wide range of options are being used in small-sized organizations, while medium- and large-sized organizations consolidate to a more regular monthly cash budgeting cycle with minor deviations. However, the responses we received regarding “level of cash at hand” are not as widely spread. In general, small-sized organizations tend to rely on subjective judgment, although there are notable differences between countries. The majority of small-sized organizations in Finland predominantly rely on subjective judgment when making decisions, while similar sized organizations in Croatia tend to adhere to established guidelines. Medium- and large-sized organizations report greater unity and rely on the use of established guidelines to a great extent.

When it comes to the transfer of excess money into securities, we can see a completely different picture of the market, with small- and medium-sized organizations relying on similar methods,

while large-sized organizations seem to use a wide range of options. Small-sized organizations report using subjective judgment in order to determine when transfers are needed, similarly to the majority of medium-sized organizations. Large-sized organizations on the other hand, use more advanced cost balancing models the majority of the time, while subjective judgment and established guidelines are also present within this group. The biggest variation in responses is seen in Finland, where medium- and large-sized organizations to some extent seem to implement different types of strategies. Croatian organizations, on the other hand, take similar positions in medium- and large-sized organizations. The smaller organizations choose similar positions across both countries.

4.1.3 Accounts receivable management

10. Techniques for granting credit?**	FI Small	HR Small	Total Small	FI Medium	HR Medium	Total Medium	FI Large	HR Large	Total Large
Credit scoring	40%	0%	20%	67%	0%	40%	50%	100%	75%
Personal connection	20%	60%	40%	0%	50%	20%	0%	0%	0%
Sequential credit analysis	0%	20%	10%	33%	50%	40%	0%	0%	0%
The four Cs of credit	40%	0%	20%	0%	0%	0%	50%	0%	25%
Other	0%	20%	10%	0%	0%	0%	0%	0%	0%

11. Discounts for early payment?	FI Small	HR Small	Total Small	FI Medium	HR Medium	Total Medium	FI Large	HR Large	Total Large
Never	60%	100%	80%	0%	50%	20%	0%	50%	25%
Sometimes	0%	0%	0%	100%	50%	80%	50%	50%	50%
Always	40%	0%	20%	0%	0%	0%	50%	0%	25%

12. Accounts receivable turnover?**	FI Small	HR Small	Total Small	FI Medium	HR Medium	Total Medium	FI Large	HR Large	Total Large
Collection period	80%	80%	80%	33%	50%	40%	50%	100%	75%
Aging schedule	20%	20%	20%	67%	50%	60%	50%	0%	25%
Other	0%	0%	0%	0%	0%	0%	0%	0%	0%

13. Criteria for credit term changes?**									
Effect on firm profits	20%	40%	30%	67%	100%	80%	50%	50%	50%
Effect on firm sales	40%	40%	40%	0%	0%	0%	0%	0%	0%
Effect on receivables level	20%	0%	10%	33%	0%	20%	50%	50%	50%
Effect on return on investment	20%	20%	20%	0%	0%	0%	0%	0%	0%

17. Collection policy?									
Computerized control system	20%	0%	10%	100%	100%	100%	50%	0%	25%
Ad Hoc decisions	60%	40%	50%	0%	0%	0%	0%	0%	0%
Cost balancing models	20%	0%	10%	0%	0%	0%	50%	50%	50%
Industry guidelines	0%	20%	10%	0%	0%	0%	0%	50%	25%
Other	0%	40%	20%	0%	0%	0%	0%	0%	0%

Decisions regarding granting credit in small-sized organizations look mostly towards personal connections overall. Countries differ a lot in this question, with the majority of Finnish based organizations opting for a more structured credit scoring and “four Cs of credit” option, while Croatians seem to be mostly considering personal connections. As we move on to larger sized organizations, answers turn more towards credit scoring with medium-sized organizations also choosing sequential credit analysis as an option.

Our survey results indicate that discounts for early payments are seldom an option in small-sized organizations. The results regarding this question are particularly split, as small-sized Finnish organizations report both sides of the spectrum choosing the “never” and “always” option almost equally. Small-sized Croatian organizations, on the other hand, unanimously chose the “never” option in this question. Medium- and large-sized organizations report increasing the instances of early payment discounts, but differences could also be seen here. Large-sized organizations in Croatia opt for the “sometimes” or “never” option, while Finnish companies lean more towards the “always” or “sometimes” option.

The criterias looked at when deciding on credit term changes are widely spread throughout the offered response options, with some consolidation as the organization size increases. In small-sized organizations, we can see a focus on firm sales and profits, while all the options get some sort of representation. The medium-sized organizations consolidate more towards firm profit, and large-sized organizations are split between firm profits and receivables level as their main focus.

Our results indicate that decisions regarding collection policy for small-sized organizations are for the most part determined based on ad hoc decisions. There are minor variations between the

countries, as in Croatia part of the respondents chose the “other” option as well. In contrast, medium-sized organizations rely on computerized systems for decision-making, while large-sized organizations primarily utilize cost balancing models, the application of industry guidelines, but also computerized systems.

4.1.4 Inventory management

14. Techniques for replenishing inventory?*	FI Small	HR Small	Total Small	FI Medium	HR Medium	Total Medium	FI Large	HR Large	Total Large
Computerized control system	20%	20%	20%	100%	100%	100%	50%	0%	25%
Ad Hoc decisions	60%	60%	60%	0%	0%	0%	0%	0%	0%
Industry guidelines	0%	0%	0%	0%	0%	0%	50%	100%	75%
Cost balancing models	20%	0%	10%	0%	0%	0%	0%	0%	0%
Other	0%	20%	10%	0%	0%	0%	0%	0%	0%

15. Variables for inventory purchase?**	FI Small	HR Small	Total Small	FI Medium	HR Medium	Total Medium	FI Large	HR Large	Total Large
Price discount	60%	60%	60%	67%	50%	60%	50%	50%	50%
Availability	20%	20%	20%	0%	50%	20%	50%	50%	50%
Other	20%	0%	10%	33%	0%	20%	0%	0%	0%
Shortage costs	0%	20%	10%	0%	0%	0%	0%	0%	0%
Credit terms	0%	0%	0%	0%	0%	0%	0%	0%	0%
Inflation	0%	0%	0%	0%	0%	0%	0%	0%	0%

Replenishing inventory techniques show consolidation at every size category. Small-sized organizations opt for ad hoc decision making when it comes to replenishing their inventory. Medium-sized organizations rely on computerized computer systems and large-sized organizations adhere to industry guidelines. The split is virtually the same across countries with minor deviations present in small- and large-sized organizations.

Once the replenishment decision is made, variables involved in purchasing inventory are consolidated across organization sizes and countries. Our results indicate that most organizations opt to focus on price discounts and availability as the main factors, with price discount being the top choice overall.

4.1.5 Accounts payable management

16. Variables in supplier choice?	FI Small	HR Small	Total Small	FI Medium	HR Medium	Total Medium	FI Large	HR Large	Total Large
Credit terms	40%	40%	40%	67%	0%	40%	0%	0%	0%
Price discounts	20%	60%	40%	0%	0%	0%	50%	50%	50%
Other	0%	0%	0%	33%	50%	40%	50%	50%	50%
Availability	40%	0%	20%	0%	0%	0%	0%	0%	0%
Personal connection	0%	0%	0%	0%	50%	20%	0%	0%	0%
Shortage costs	0%	0%	0%	0%	0%	0%	0%	0%	0%

18. Collateral required for bank borrowing?*	FI Small	HR Small	Total Small	FI Medium	HR Medium	Total Medium	FI Large	HR Large	Total Large
Sometimes required	60%	100%	80%	100%	100%	100%	50%	100%	75%
Always required	40%	0%	20%	0%	0%	0%	0%	0%	0%
Never required	0%	0%	0%	0%	0%	0%	50%	0%	25%

The supplier choice, on the other hand, offers a wide range of approaches differing significantly from country to country and size to size. Major considerations for small-sized Finnish organizations include credit terms and availability, while similar sized Croatia organizations look for price discounts and credit terms when deciding. Medium-sized organizations in Finland mostly look for credit terms, while Croatian organizations look more at personal connection as a factor. As we move up to the large-sized organization, the results indicate that the main factors considered are price discounts and “other” factors.

When it comes to ensuring bank borrowing with collateral, most companies report sometimes needing it. However, there are minor deviations visible in the responses of small- and large-sized Finnish organizations.

4.1.6 Other working capital management considerations

4. Working capital reflected in capital budget?*	FI Small	HR Small	Total Small	FI Medium	HR Medium	Total Medium	FI Large	HR Large	Total Large
Always	20%	40%	30%	33%	100%	60%	100%	50%	75%
Sometimes	80%	20%	50%	67%	0%	40%	0%	50%	25%
Never	0%	40%	20%	0%	0%	0%	0%	0%	0%

19. Electronic systems?	FI Small	HR Small	Total Small	FI Medium	HR Medium	Total Medium	FI Large	HR Large	Total Large
All aspects	40%	60%	50%	100%	100%	100%	100%	100%	100%
Accounts payable	60%	0%	30%	0%	0%	0%	0%	0%	0%
Accounts receivable	0%	40%	20%	0%	0%	0%	0%	0%	0%
Inventory	0%	0%	0%	0%	0%	0%	0%	0%	0%

When it comes to the implementation of working capital management in capital budgeting, our results indicate that it is only done occasionally in smaller organizations, while medium- and large-sized organizations report it as regular practice. This question also divided the responses and brought up differences between the two countries. For instance, small-sized organizations in Croatia reported either always reflecting working capital in their budgets or never doing it, while similar sized Finnish companies stayed more consistent in showcasing its occasionality. This pattern continued in the responses of medium-sized organizations in Finland, where there can be seen a great tendency to respond with "sometimes" in relation to this question. Conversely, Croatian respondents were more absolute, consistently choosing "always" as their response.

Lastly, the use of electronic systems for working capital management is present in virtually all organizations regardless of size, as most companies indicate all aspects of their working capital are within an integrated electronic system. Deviations are expected and visible in small-sized organizations in both countries, as Finnish companies report only using electronic systems for accounts payable, while Croatian companies report using them for accounts receivable.

4.2 Interviews

Company A	Finland	Small	Founder & CEO
Company B	Croatia	Small	CFO
Company C	Finland	Medium	CFO
Company D	Croatia	Medium	CFO

Table 2: Interview respondents.

4.2.1 Working capital management policies and responsibility

After conducting interviews with the representatives of the organizations, we analyzed and compared practices and tendencies which provided us with an interesting and more deep understanding of the results. The overall practices in small-sized organizations are similar as both use informal policies that rely on subjective judgments and experience in order to maintain their working capital levels optimal. Both organizations understand the need for adequate working capital management and use forecasting methods in order to keep their business needs met. Differences arise as Company B opted to use an ERP system in its business and automate their report creation and working capital tracking.

"*Within our company, working capital management is separated into the four crucial components and we measure every part separately through the integrated ERP system.*" *(Company B CFO)*

Company B also relies on their ERP system for forecasting, but also forecasts a really short time period opposed to Company A.

"When creating our weekly reports, we can see the coming inflows and outflows for the coming week or two, we use this to forecast our cash flows and ensure adequate cash levels." (Company B CFO)

When looking at the medium-sized organizations, we can see much more similarities between them as both use formal policies and guidelines in their working capital management. Both companies use an integrated ERP system in order to measure and monitor their working capital components and rely on accurate forecasts in order to ensure the optimal level of working capital at all times. The only difference seen between the two organizations overall is their measurement of working capital effectiveness where Company C relies on financial ratios and predetermined KPIs, while Company D looks at their overall revenue and profit to determine the effectiveness.

"We regularly monitor and analyze our working capital position using various financial ratios and key indicators." (Company C CFO)

4.2.2 Cash management

Focusing deeper on each component of working capital management, we can see a number of additional differences appearing. When talking about cash management, both Company A and B closely monitor their liquidity position and forecast coming inflows and outflows. This is although the only similarity between the two as they put emphasis on different factors. Company A opts for early payment discounts towards their customers, excess cash reinvestment into the business, and lower level of cash at hand.

"As a small-scale business, any cash surplus is usually reinvested back into the company to finance operations, cover expenses, and strengthen the company's financial position." (Company A CEO)

Company B on the other hand is taking the complete opposite approach with a significant level of cash at hand, no early payment discounts, and almost no excess cash resulting from it. Any excess cash in Company B would be invested in mutual funds if present.

"The level of cash at hand in our company always covers all of our coming payables, but also all of our long-term debt." (Company B CFO)

Medium sized organizations do not split in their cash management as much as small companies. Company C and D both opt for a level of cash at hand that covers their short-term expenses and look towards forecasting and business experience in order to maintain the adequate level of cash. Their only difference in this component is the choices regarding excess cash reinvestment. Company C chooses to reinvest their excess cash into short term securities, while Company D looks to invest excess cash back into the business for business development or employee benefits.

"Our surplus cash is invested back into the business. Most times the surplus is used in order to expand our retail space, develop our business or to increase the pay for our employees." (Company D CFO)

4.2.3 Inventory management

When it comes to inventory management, companies A and B both rely on their business experience and intuition. Although the implementation of the ERP system in company B causes the similarities to stop at that because the processes start differing a lot. Company A looks to manual monitoring and forecasts in order to maintain an adequate inventory level. They also look to place a bigger number of smaller orders in order to minimize the amount of time a product spends in their inventory.

"One could say that we have implemented a kind of just-in-time inventory management technique to minimize the time products spend in the inventory." (Company A CEO)

Company B on the other hand uses the ERP system in order to monitor their inventory levels and create automated inventory reports directly from the system. They also create orders directly from the system based on the optimal level of inventory set in the system. The optimal level though is set through the company's leadership based on their subjective judgment and business experience. Additionally, Company B stores mostly nonperishable products and thus

does not have to adjust their inventory management to expiration dates. They do obtain products that could after a time become obsolete, which they sell off as a part of the promotion if the product is close to becoming obsolete in order to maintain their profit margins healthy.

Medium sized companies report similar practices within their inventory management. Both companies use their ERP system to monitor and automate the process, and both companies engage in forecasting based on historical data and market analysis. Companies C and D, similarly to company B, also engage in product promotions in order to increase sales of slow-moving products or products that are close to becoming obsolete. The main difference seen between the two companies is the level of automation in Company C's case which has implemented alerts in all parts of their system, while Company D relies on constant monitoring of the system and making needed adjustments. Another difference is the strategy for uncertain periods regarding the inventory purchases. Company C manages their inventory plus managing a safety stock in case of supply chain disruptions. Company D on the other hand opts out for larger orders in uncertain times in order to ensure availability during product shortages or supply chain disruptions.

"In [uncertain] times like this, we aim to purchase bigger volumes of inventory and pay them immediately." (Company D CFO)

4.2.4 Accounts receivable management

Accounts receivable provide another component that Company A and B do similarly, but ultimately different as the process of working capital management goes through different systems. Both company A and B conduct creditworthiness analysis and provide credit terms based upon that. The difference however is in the way Company A chooses to engage their customers and their approach to maintaining accounts receivable levels to the agreed terms and timeline. Company A opts for a close customer relationship exchanging communication back and forth and provides early payment discounts to their customers.

"In practice, we have small customers who have experienced payment difficulties, but with whom we have been able to establish a fairly personal relationship. This allows us to have good knowledge of their financial situation and agree on mutually suitable terms." (Company A CEO)

Company B on the other hand relies heavily on their ERP system and the business agreements with their customers. They require a credit note guarantee at the start of each business arrangement and take a more distanced approach to their customers.

"Our company has a 30-day payment policy for our customers. This is granted after checking their previous defaults on the public sites and their signing of a business agreement and a credit note." (Company B CFO)

Companies C and D somewhat come together in this subject and both conduct creditworthiness analysis, use their ERP systems to monitor the payment due dates, and if the late payment is being detected, reach out to the customer. Company C, as indicated earlier, has a more automated system with implemented alerts that helps them immediately respond to the potential

delinquency, but also if the communication is not reciprocated, they will turn to a third party for their collection.

"If the customer fails to make the payment within X number of days after the receivable has become due, an automatic payment reminder is sent to them. (...) The customer's account manager can also directly contact the customer if the invoice remains unpaid. Finally, if the customer is unable or unwilling to pay, the receivable is sold to a debt collection agency, which takes over the matter." (Company C CFO)

Company D employs a strategy where they themselves look for payment and ensure themselves at the start of every business transaction. A signed business agreement and credit note are necessary for granting credit and makes it easier for Company D to collect their accounts receivable in case of customer delinquency.

"To manage our accounts receivable, we offer most of our customers a 30-day payment policy. After the end of the given period, our billing department calls the customer and sends out the current state of all open accounts. (...) Finally, if there is no payment received and the customer has ignored a number of our warnings, we are forced to use the collateral presented in the business agreement." (Company D CFO)

4.2.5 Accounts payable management

Accounts payable management within the small organizations we interviewed is somewhat similar to accounts receivable management. Both companies pay close attention to their incoming payables, create reports and payment schedules and communicate if a problem arises to mitigate penalties. Similarly, to accounts receivable management, Company A keeps an open communication channel with their suppliers. They also take advantage of any price discounts on offer but admit their low bargaining power when it comes to dealing with suppliers.

"We maintain proactive and open communication with our suppliers. If delays are anticipated, we inform the suppliers in advance. Maintaining strong supplier relationships and transparency are crucial in managing this risk, especially for a small company." (Company A CEO)

Company B on the other hand uses their ERP system to prepare payment orders, has a better bargaining power with their suppliers and enjoys a 60-day payment policy.

"With our suppliers we have a 60-day payment policy. This has been negotiated with the majority of our suppliers through years of doing business in the region and developing ourselves as one of the major retailers and wholesalers." (Company B CFO)

Medium sized companies both use similar techniques when managing their accounts payable. Both companies look at their payment schedules and pay their suppliers on time. Close monitoring and better position on the market allows them to have better conditions and thus enjoy a better bargaining power. These two companies do maintain open communication with their suppliers in order to mitigate any potential penalties and avoid damaging the relationship. Although similar, Company C admits to taking early payment discounts every time if offered, while Company D opts out for discounts only if they are in their opinion worthwhile. Company

D also enjoys longer credit terms than company C where company D reports 60-day payment policies with domestic suppliers and 30-day payment policies with suppliers abroad. This does fluctuate from country to country but is higher considering the 30-day payment policy company C enjoys from some of their domestic suppliers.

"In Finland, the law specifies that the payment period should not exceed 30 days unless expressly agreed upon. In practice, however, in Finland, especially with smaller suppliers, the 30-day payment term is almost always used." (Company C CFO)

4.2.6 Challenges and future outlook

When discussing challenges and recent changes to their working capital management, smaller companies differed in their overview of the business. Company A pointed out their cash flow fluctuations and limited funds as the biggest challenge, while Company B looked at stockouts as being theirs. Both have a similar approach to these issues with closer monitoring of their working capital and reinvesting into the business where needed. Companies differ though in their view of measuring effectiveness and future outlook for the company. Using key indicators, company A measures their performance throughout the process, but does not look to benchmark according to other companies of similar size. They look to maintain close relationships with their customer and supplier base and collaborate in order to build up a better future position. Company B looks to maintain their position within the market as they believe their working capital management is above average compared to other similar companies. They do not utilize any measurements to monitor their working capital management though and only look to solidify their credit terms on both sides.

"To mitigate these risks related to working capital management, we reinvest surplus cash back into the company for financing, covering operating costs, and strengthening the company's financial position. We also regularly conduct cash flow forecasts to anticipate any shortfalls or liquidity constraints." (Company A CEO)

Medium sized companies agree on the challenges posed in the marketplace and look at inventory disruptions and credit risks as the major challenges for them. Companies do take differing approaches to these issues as company C is looking to implement more automation and improve their credit assessment while company D aims to improve their planning potential and forecasting accuracy to mitigate these challenges. Both companies use indicators to measure their efficiency with company C looking to a wider range of indicators in their business. When comparing themselves to their competitors, both companies state that their working capital management is above average. As both companies are in a good position within their markets, future developments within them are mostly developments to their current systems and increasing the efficiency throughout.

"The biggest challenges in our working capital management are the shortage of certain materials, increasing prices of transport and inflation. To mitigate these and to lower the risk, we aim to keep our planning at a high level as well as follow the current trends in the market and our competitors and customers." (Company D CFO)

5 Discussion

5.1 Variations across organizational size and culture

When it comes to how the differences in organizational size impacts working capital management strategies and techniques in Croatian and Finnish organizations, our findings showcase that small-sized organizations rely more on subjective judgments, experience, and manual processes, while medium- and large-sized organizations on the other hand, adopt formal policies and guidelines.

Our findings indicate that organization size has a significant influence on working capital management. This is also something Narender et al. (2008) found in their study. Continuing with prior research, there has been a shift towards implementing technology into working capital management practices just like authors Pratap Singh and Kumar (2014) anticipated in their study. Our results show that organizations, regardless of size, are willing to utilize ERP systems in all aspects of working capital management. Implementing these systems is often, however, a matter of financial resources where small-sized organizations often have to choose between their obligations and ERP system implementation. Medium- and large-sized organizations on the other hand, utilize sophisticated ERP systems and emphasize more established and accurate forecasting techniques in the management of working capital.

When it comes to cultural differences between Croatia and Finland, our findings indicate that there are similarities, but also variations that have an impact on the strategies and techniques used for working capital management. When it comes to prior research, similar types of studies have not been conducted earlier to our knowledge. Therefore, we will relate our discussion to how the two countries score across Hofstede's cultural dimensions.

5.1.1 Working capital management policies and responsibility

Based on our findings, we have identified a pattern in the roles and working capital management policies across organizations of different sizes. In small-sized organizations, individuals in higher hierarchical positions, such as President, are typically responsible for the organizations working capital management. In medium- and large-sized organizations, this is predominantly the responsibility of the organization's CFO. Formal policies and guidelines are not commonly established in small-sized organizations. Instead, they trust policies based on cautious working capital management approaches, subjective judgment, and experience. Our results indicate that this changes as the organization size increases. Medium- and large-sized organizations have more situational approaches to working capital management with predominantly formal policies and guidelines in place.

These observations align with the principles of resource-based theory, which suggests that an organization's resources and capabilities contribute to its competitive advantages. In the case of working capital management, larger organizations have a greater resource base, allowing them to attract capable employees who have the knowledge and expertise to oversee the organizations working capital management. Additionally, they have the financial resources to implement comprehensive policies and systems for managing working capital effectively.

The trade-off theory further supports our findings, as it emphasizes the trade-offs organizations face when choosing among different strategies and techniques. As organizations increase in size, they prioritize both profitability and liquidity. Medium- and large-sized organizations aim to strike a balance between these two objectives by implementing more formal working capital management policies. This allows them to maintain a sufficient level of liquidity to meet operational needs while maximizing profitability through optimized working capital practices. The adoption of formal policies and guidelines comes at the cost of flexibility but helps mitigate the risk of liquidity shortages and improves the overall financial performance of the organization.

Our findings show that in both Croatia and Finland, the responsibility of working capital management tends to move downwards the organizational hierarchy as the organization size increases. Similarly, our findings indicate similarities between the two countries in how working capital management policies become more formal as the organization size increases. Our survey results indicate that there are some differences in the form of what kind of type of working capital management policies are used in small-sized organizations. Finnish organizations report to apply a situational and more aggressive approach compared to Croatian organizations. However, the survey conducted presents a current overview with a small sample of organizations and therefore, the results should not on their own be generalized to a whole population. Additionally, these results have not been confirmed in the interviews we conducted, making them inconclusive.

5.1.2 Cash management

Cash management in smaller-sized organizations tend to rely mostly on subjective judgment. In the interviews we conducted it also became clear that small-sized organizations tend to keep a larger amount of cash in hand to cover long-term debt, and excess funds are seldom invested in securities, but rather invested back in the business. In medium- and large-sized organizations the main aim seems to be to maintain an adequate cash level to cover short-term financial obligations. More established guidelines and techniques also come into play regarding excess cash for these larger organizations.

In the context of resource-based theory smaller-sized organizations may have limited resources and capabilities, leading to a greater trust in subjective judgment for cash management decisions. These organizations tend to prioritize having a larger amount of cash in hand to cover long-term debt and reinvest any excess funds back into the business. Their focus is simply put on ensuring their financial stability and supporting their ongoing operations. On the other hand, medium- and large-sized organizations typically have a greater resource base and financial capabilities. Therefore, they are better positioned to implement more established guidelines and techniques for cash management. Their aim is also to maintain an adequate cash level to cover short-term financial obligations. However, because they have a larger resource base, these organizations have the capacity to implement more advanced techniques for cash management, including investment of excess cash into short-term securities. The increased resource base for these larger organizations also enables them to have easier access to additional funding as the greater resource base provides additional security when approaching financial institutions.

In the context of trade-off theory, the differences in our findings regarding cash management in organizations reflect the trade-offs organizations face when making decisions about cash

allocation. Smaller-sized organizations, due to their limited resources, may prioritize maintaining a larger cash balance to mitigate risks associated with debt, or need to support their organizations immediate needs. This decision comes at the expense of potential short-term investment opportunities where the organization could earn interest payments. On the other hand, medium- and large-sized organizations also have to consider the trade-off between liquidity and profitability. However, these organizations have the ability to strike a balance between maintaining adequate cash levels and utilizing investment options. They can make sure that they have enough cash to cover their short-term financial obligations, but at the same time allocate excess cash to short-term investment and therefore, gain interest payments.

Further differences can be found in the way Croatian and Finnish organizations manage their cash. Our results indicate that in small-sized Finnish organizations, cash management is mostly conducted based on subjective judgment, while the majority of small-sized Croatian organizations report following established guidelines. In Finnish medium- and large-sized organizations, our results indicate that there is a clear shift towards established guidelines, while our results indicate a clear split between subjective judgment and established guidelines in medium- and large-sized Croatian organizations. In the context of cultural dimensions theory, Finnish small-sized organizations with their preference for subjective judgment, showcase a tendency towards individualism. Small-sized Croatian organizations, on the other hand, show a preference towards collectivism.

5.1.3 Accounts receivable management

Accounts receivables are usually more crucial for small-sized organizations, compared to larger-sized organizations. Therefore, there is a strict focus on creditworthiness analysis, personal connections and maintaining open communication channels with customers. However, most small-sized organizations report never offering cash discounts to customers. Some small-sized organizations report using ERP systems in the collection of accounts receivable, but this is not the case for most of them. Instead, far more emphasis is placed on ad hoc decisions. Our results also show that medium- and large-sized organizations heavily rely on credit scoring and sequential credit analysis when it comes to account receivables. To further differentiate themselves from small-sized organizations, they often also provide cash discounts to customers and have better bargaining power in negotiations regarding credit terms and agreements compared to small-sized organizations. To ensure timely payments, medium- and large-sized organizations rely on ERP systems, industry guidelines and advanced cost balancing models.

From a resource-based theory perspective, the variations between organizations sizes can be attributed to varying resource availability. Small-sized organizations often have limited resources compared to larger-sized organizations and therefore, receiving payments for their products and services is crucial to maintaining operations. They rely on strictly ensuring the creditworthiness of customers and prioritize personal connections when issuing credit. They do not often have the financial resources available for implementing advanced ERP systems and therefore rely on manual monitoring and ad hoc decision-making. Furthermore, they seldom offer cash discounts for early payments but maintain open communication channels with customers to ensure payment. On the other hand, medium- and large-sized organizations have greater financial resources compared to small-sized organizations and therefore, often enjoy the benefits of implemented ERP systems where they can monitor the organizations accounts

receivables. Their collection policy often consists of industry guidelines and advanced cost balancing models. When granting credit to customers, they utilize credit scoring and sequential credit analysis. Furthermore, they often have the ability to offer cash discounts to customers for early payments and have a resource-based advantage in negotiating agreements and credit terms with customers.

From a trade-off theory perspective, small-sized organizations might perhaps not be able to offer cash discounts to their customers because of their financial position. Therefore, they prioritize maintaining strong customer relationships with the help of open communication channels. While medium- and large-sized organizations can provide cash discounts to their customers because of their greater financial resources. This again could help attract customers and therefore, ensure their competitive advantage.

The biggest variations between the two countries of study in account receivables management are found when discussing the techniques organizations utilize when granting credit to their customers. Our findings show that Finnish organizations tend to rely more on structured credit scoring and established guidelines for granting credit to their customers. This may reflect a higher preference for a low uncertainty avoidance culture. Finnish organizations may prioritize objective criteria and standardized processes to mitigate uncertainty and therefore, minimize risk. On the other hand, our findings show that Croatian organizations value personal connections and subjective judgment in granting credit. This may reflect a higher preference for relationship-oriented practices and a higher power distance culture. Personal relationships and trust may play a more significant role in decision-making processes in such cultural contexts.

5.1.4 Inventory management

Small-sized organizations mostly rely on manual monitoring, subjective judgment, business experience and intuition in the regards of inventory management. However, whenever they have the financial resources available, these organizations report their willingness to utilize some versions of ERP systems in inventory management. Medium- and large-sized organizations on the other hand, reported that they always utilize ERP systems in their inventory management. These systems are used to monitor and automate the process to a vast extent. The forecasting methods utilized in larger-sized organizations are also more sophisticated compared to small-sized organizations. Furthermore, medium- and large-sized organizations report holding at least some sort of safety stock readily available. This is often not an option for small-sized organizations.

In the context of resource-based theory, the differences in inventory management can be attributed to varying resource availability. Small-sized organizations do not often have the financial resources to implement sophisticated ERP systems and therefore rely on manual monitoring, subjective judgment, and business experience for inventory management. Furthermore, their limited resources do not often allow them to hold any safety stock. While medium- and large-sized organizations on the other hand, have greater resources compared to small-sized organizations and therefore, often have implemented ERP systems and automated at least some aspects of their inventory management. Furthermore, they employ sophisticated forecasting methods to optimize inventory levels and maintain a predetermined safety stock in case of “rainy days”, which ensures their ability to meet customer demand.

In the context of trade-off theory, the differences in inventory management practices reflect the trade-offs organizations face when making decisions regarding stock and inventory management techniques. Small-sized organizations, due to limited resources, rely on manual methods and subjective judgment, in having a balance between adequate inventory levels and minimizing holding costs. They do not have the benefit of holding safety stock due to their limited financial resources. Therefore, they carry a risk of stockouts in case problems arise with the supply of inventory. On the other hand, medium- and large-sized organizations prioritize efficiency and accuracy in their inventory management. They don't have as limited financial resources compared to small-sized organizations and therefore, they can invest in ERP systems and automate parts of their inventory management to streamline the process and optimize inventory levels. Furthermore, their financial resources often allow them to carry a safety stock and therefore, the risk of stockouts is reduced.

Both countries follow quite similar practices when it comes to inventory management. There is, however, a small variation found between countries in the large-sized organizations group. When it comes to techniques for replenishing inventory, Croatian large-sized organizations rely on industry guidelines, which again showcases the tendency towards collectivism. On the other hand, Finnish large-sized organizations prefer their computerized control system when replenishing inventory, which points more towards individualism.

5.1.5 Accounts payable management

Our results show that organizations of all sizes value credit terms and price discounts when supplier choices are made. Small and medium-sized organizations also report often taking advantage of price discounts. Furthermore, they value personal connections and open communication regarding accounts payable. Similarly, to accounts receivable, some small-sized organizations report utilizing ERP systems in regard to accounts payable management. This is, however, not the case for the majority of small-sized organizations. Conversely, large-sized organizations report always utilizing ERP systems in regard to accounts payable management. They also maintain open communication with their suppliers and take advantage of price discounts, at least if they consider the discounts worthwhile. Furthermore, large-sized organizations report valuing availability when making supplier choices. Large-sized organizations strive to pay their suppliers on time, in-order to mitigate payment penalties and avoid damaging the supplier relationships. Similarly, to accounts receivable, medium- and large-sized organizations also enjoy better bargaining power when it comes to agreements and credit terms compared to small-sized organizations.

In the context of resource-based theory, the variations between different sized organizations can be seen as varying resource availability. The majority of small-sized organizations do not enjoy the benefit of having advanced ERP systems implemented, while medium- and large-sized organizations, with greater financial resources often utilize these types of systems. Coupled with higher bargaining power and longer payment terms because of their resource base, medium- and large-sized companies gain an additional competitive advantage in the market.

From a trade-off theory perspective, the differences reflect the trade-off organizations face when making decisions regarding suppliers, payment terms and price discounts. Small- and medium-sized organizations rely on personal connections when making supplier decisions,

because they can get favorable credit terms. These connections often also come with price discounts and open communication with the supplier. This is not often the case when negotiating with larger-sized suppliers, where especially small-sized organizations have very small chances of dictating terms when it comes to contracts. Large-sized organizations often have greater resources to utilize, and they usually order larger quantities compared to small- and medium-sized organizations. Therefore, they enjoy greater bargaining power when it comes to credit terms and contracts. These organizations also value and respect supplier relationships, but also consider availability when making supplier choices. Therefore, they enjoy a bigger pool to fish from when it comes to supplier decisions.

Findings regarding accounts payable management also showcase differences between the two countries of study. Croatian medium-sized organizations report that they value and prioritize personal connections when choosing suppliers. In terms of cultural dimensions theory, a cultural tendency of relying on personal connections and trusted networks showcases high uncertainty avoidance. Finnish medium-sized organizations, on the other hand, mainly consider credit terms and other variables. This reflects a more systematic and objective approach in supplier choices compared to Croatian organizations. A systematic and objective approach also indicates higher levels of uncertainty avoidance, but perhaps not to the same degree as in relying on personal connections. After all, they are more familiar and therefore, can be trusted. Valuing personal connections also aligns with a higher power distance culture. These cultures practice higher hierarchical structures and authorities. In these business structures personal connections play a crucial role. On the other hand, Finnish organizations practice more systematic and objective approaches in making supplier choices which indicates a lower power distance culture. Furthermore, in the interviews we conducted, we found that Croatian organizations also enjoy longer payment policies compared to Finnish organizations. This might, however, be due to the differences in national laws instead of culture.

6 Conclusion

Prior research has shown that there is a gap in the field of research regarding working capital management in a multi-country setting based on qualitative data. Furthermore, one of the few authors that has conducted studies regarding working capital management in a multi-country setting, Koury et al. (1998), suggested that it would be beneficial for the field of research if more similar studies regarding working capital management would be conducted in other countries, in order to better understand how practices have changed over time, as well as to recognize cultural differences on an international scale.

Therefore, the purpose of this study has been to examine the impact different organization sizes have on working capital management strategies and techniques. Specifically, the study has investigated the practices of organizations operating in Croatia and Finland. Additionally, we have sought to explore potential variations in culture that may impact the strategies and techniques employed in the two countries. The research questions for our paper were as follows:

RQ 1: "How do the differences in organizational size impact working capital management strategies and techniques in Croatian and Finnish organizations?"

RQ 2: "Do the cultural differences between Croatia and Finland impact working capital management strategies and techniques?"

To our knowledge, this is the very first study that compares working capital management practices between Croatia and Finland. As an overview of the market for our paper, we opted to send out a similar but modified version of the quantitative survey that Koury et al. (1998) used. In addition to the survey, we performed qualitative semi-structured interviews with four individuals responsible for working capital management in Croatia and Finland. These interviews allowed us to get a deeper and more comprehensive understanding that would have been impossible to gain utilizing only the quantitative survey as a data collection method.

Our results indicate that organization size has a significant impact on the working capital management strategies and techniques and therefore, are in line with the conclusions of Narender et al. (2008). This impact, however, becomes less significant as organization size increases. The vast majority of small-sized organizations rely on informal policies and subjective judgment in regard to working capital management. They often also rely on experience and manual forecasts in different aspects of working capital management. Medium- and large-sized organizations, on the other hand, have formal working capital management policies in-place and have ERP systems implemented in their businesses. Furthermore, they rely on sophisticated working capital management strategies and techniques in virtually all aspects of working capital management.

In terms of cultural differences between Croatia and Finland, our findings indicate that the variations between the two countries do impact the use of working capital strategies and techniques on, at least, some levels. Our findings show that Finnish organizations tend to practice individualistic tendencies, while Croatian organizations on the other hand, display collectivist traits when it comes to working capital management strategies. Additionally, Croatian organizations show higher levels of uncertainty avoidance and power distance culture

compared to Finnish organizations. Therefore, our findings are in-line with how the two countries score across Hofstede's cultural dimensions. These cultural differences impact decision-making processes and management techniques in working capital management strategies.

Our findings contribute to a better understanding of the impact of organization size and culture on business practices and can assist organizations in adapting their strategies accordingly. Furthermore, understanding these variations in diverse organizational contexts may be used to inform entrepreneurs, as well as current business owners, regarding potential variations and cultural differences present in working capital management.

The main critique of our study is perhaps the method. We have used a relatively limited sample for our quantitative survey and therefore, these results on their own should not be generalized for a whole population. We have, however, compensated for this particular limitation very well with our semi-structured interviews and the results of our survey that have been confirmed in the interviews can in our opinion be considered valid and reliable. If this study were to be duplicated, we would urge the researchers to use a bigger sample size in order to achieve more reliable results from the survey.

When it comes to further research, the field of research could benefit from more similar types of qualitative studies regarding working capital management. Researchers have previously been reluctant in applying qualitative research methods in regard to working capital management and therefore, there is a clear gap in the field of qualitative research regarding working capital management (Pratap Singh & Kumar, 2014 pp. 188). Furthermore, industry specific studies in a multi-country setting could generate more accurate results regarding impact of organization size on variations in working capital management strategies and techniques. The same can be said in regard to cultural differences.

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8 Appendix

8.1 Survey questions

1 What is the size of your company?

Small – Medium – Large

2 Who within the company is responsible for working capital management policy?*

Board of Directors – President – Vice President of Finance – Treasurer – Controller – Other

3 What is the nature of your working capital management policy?*

Formal – Informal

4 What is the type of your working capital management policy?*

Cautious – Aggressive – Situational – Change over Time

5 Is your working capital reflected in capital budgeting?*

Never – Sometimes – Always

6 What is the frequency of policy review within your company?*

Monthly – Quarterly – Semi-annually – Annually – Whenever necessary

7 What discount rate is used when making changes in working capital?*

Interest rate – Cost of equity capital – Average cost of capital – Hurdle rate not required – Other

8 How frequently do you review and set up your cash budget?*

Daily – Weekly – Monthly – Quarterly – Other

9 How do you decide on the level of cash at hand?

Subjective judgements – Established guidelines – Cost balancing models – Other

10 How do you make decisions about transfers between cash and securities?*

Subjective judgements – Established guidelines – Cost balancing models – Other

11 What techniques do you use for granting credit?**

The “four Cs of credit” – Sequential credit analysis – Credit Scoring – Personal connection – Other

12 Do you offer discounts for early payment?

Never – Sometimes – Always

13 How do you measure your accounts receivable turnover?**

Collection period – Aging Schedule - Other

14 What is the criteria in evaluating credit term changes?**

Effect on firm sales – Effect on receivables level – Effect on firm profits – Effect on return on investment

15 What techniques do you use for replenishing inventory?*

Ad Hoc decisions – Industry guidelines – Cost balancing models – Computerized control system – Other

16 What variables do you consider in inventory purchases?**

Availability – Price discounts – Credit terms – Shortage costs – Inflation – Other

17 What variables are considered in supplier choice?

Availability – Price discounts – Credit terms – Shortage costs – Personal connection – Other

18 How do you decide on your collection policy?

Ad Hoc decisions – Industry guidelines – Cost balancing models – Computerized control system – Other

19 Is collateral required as part of bank borrowing?*

Collateral never required – Collateral sometimes required – Collateral always required

20 Do you use electronic systems within your working capital management?

Accounts payable - Accounts receivable - Inventory - All aspects

*Question taken from previous research, Koury et al. (1998)

**Question taken from previous research with additional answer options or different answer selection methods, Koury et al. (1998)

8.2 Interview guide

Introduction

Can you please tell me a little bit about your role in the company and your experience with working capital management?

Understanding the company's working capital management practices

How does your company define and measure working capital?

Can you describe the working capital management practices of your company?

How do you determine the optimal level of working capital for your company?

What are the major components of your company's working capital, and how do you manage them?

Cash Management

How does your company manage its cash balance?

Can you describe the process of forecasting cash inflows and outflows?

What strategies does your company use to optimize cash management, such as delaying payments to suppliers or accelerating collections from customers?

How does your company invest surplus cash, if any?

Inventory Management

Can you describe the process of inventory management in your company?

How does your company determine the optimal level of inventory to maintain?

How do you ensure that inventory is managed efficiently to avoid stockouts or excess inventory?

What measures does your company take to reduce the risk of obsolete inventory?

Accounts Receivable Management

How does your company manage accounts receivable?

Can you describe the process of credit evaluation and setting credit terms for customers?

How does your company ensure timely collection of receivables?

What measures does your company take to reduce the risk of bad debts?

Accounts Payable Management

Can you describe the process of managing accounts payable in your company?

How does your company negotiate payment terms with suppliers?

What strategies does your company use to optimize payment timing?

How does your company manage the risk of late payment penalties or damaged supplier relationships due to payment delays?

Evaluating the effectiveness of working capital management

How do you measure the effectiveness of your company's working capital management?

How does your company compare to similarly sized companies in terms of working capital management?

Can you describe any recent changes or initiatives your company has undertaken to improve working capital management?

Challenges and risks associated with working capital management

What are some of the biggest challenges your company faces in managing working capital?

How do you mitigate the risks associated with working capital management?

Can you describe any instances where your company faced liquidity or solvency issues due to working capital mismanagement?

Future plans for working capital management

What are your company's plans for improving working capital management in the future?

What are some key areas you plan to focus on in the near future?

How do you see your company's working capital management evolving over the next 3-5 years?

Conclusion

Is there anything else you would like to share about your company's working capital management practices?

Thank you for your time and participation in this interview.