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Article abstract

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# Understanding and Solving Late Payment: The Role of Organizational Routines



## Comprendre et résoudre les retards de paiement : le rôle des routines organisationnelles

## Comprensión y solución del pago atrasado: el rol de las rutinas organizacionales

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### ABSTRACT

European legislation has so far failed to alleviate late payment. We introduce the concept of organizational routine; this contributes to understanding late payment and its persistence and focuses on more effective ways of alleviating it. The case study between a large Spanish company and its Spanish SME suppliers gives an exemplary illustration of organizational (trade credit) routines and their dynamics in a two-sided business relationship. The large company's imbalanced routine and the SMEs' balanced routine explain late payment. Potential for change and the alleviation of late payment is to be found in routines' internal dynamics and in participants' understanding.

**Keywords:** Spain, late payment, case study, SME, organizational routine, trade credit routine, organizational phenomenon

### RÉSUMÉ

La législation européenne n'a pas réduit significativement les retards de paiement. Nous introduisons le concept de routine organisationnelle pour comprendre les retards de paiement et leur persistance et nous focaliser sur leur réduction. L'étude de cas d'une grande entreprise et de ses fournisseurs espagnols illustre les routines organisationnelles (du crédit inter-entreprises) et leurs dynamiques dans la relation. Le déséquilibre de la routine de la grande entreprise et l'équilibre de celle des PME expliquent les retards de paiement. Le potentiel de réduction des retards de paiement est à rechercher dans la dynamique interne des routines et la compréhension des participants.

**Mots Clés :** Espagne, retards de paiement, étude de cas, PME, routine organisationnelle, routine du crédit inter-entreprises, phénomène organisationnel

### RESUMEN

La legislación europea no ha logrado disminuir los plazos atrasados. Introducimos el concepto de rutina organizacional para comprender los retrasos de pago y su persistencia, y nos focalizamos en su reducción. El estudio de caso entre una gran empresa española y sus proveedoras PYMES se ilustra con rutinas organizacionales (del crédito comercial) y su dinámica en relaciones comerciales bilaterales. La rutina desequilibrada de la gran empresa y la rutina equilibrada de las PYMES explican el retraso en el pago. El potencial reductor del retraso de pagos está en la dinámica interna de las rutinas y la comprensión de los participantes.

**Palabras Clave:** España, pago atrasado, estudio de caso, PYME, rutina organizacional, rutina de crédito comercial, fenómeno organizacional

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A recent European Commission report (2016) on the implementation of Directive 2011/7/EU of the European Parliament on combating late payment in commercial transactions acknowledges that “the Directive has so far not had any major impact on payment behavior” (p.4), that “four out of five businesses continue to experience late payment” (p.5) and that “for each day of reduction in payment delays, an estimated EUR 158 million is saved by European companies in finance costs” (p.5). Moreover late payment (i.e. when the collection period exceeds the credit period granted to the customer) is worldwide (see Jordao de Carvalho (2015) for Brazil, Paul *et al.* (2012) for Malaysia or Atradius Payment Practices Barometer-The Americas (2016) for Canada and the US). Despite strong attention from academics and public authorities, late payment remains unsolved even if somewhat improved (Intrum Justicia, 2012, 2014, 2016, Paul and Boden, 2011).

Furthermore, the focus is on SMEs and their relationships with larger firms: SMEs rather than larger corporations claim that late

payment causes liquidity squeeze, threatens company survival and prohibits growth (Intrum Justicia, 2016). SMEs are more significantly impacted due to their small size and vulnerability to cash flows (Matthews, 2013, Mazzarol *et al.*, 2015). Both academics and governing authorities say that “larger firms can and do take longer to pay their smaller suppliers” (Paul and Boden, 2014, p.30) and that “larger companies take advantage of their stronger market position” (European Commission, 2016, p.4).

The literature on late payment concentrates on explaining both the phenomenon and ways to alleviate it. First, two interdependent assertions (Howorth and Wilson, 1998) highlight actors' intentionally not wanting to pay: (1) trade credit and late payment are part of the overall financing strategy of their business and (2) late payment arises from customers' dominance over their suppliers, exercising market power and obtaining cheap funding. Resulting from this explanation, legislation is the favored solution to alleviate late payment. The other explanation is mismanagement (Paul and Boden, 2011; 2012; Peel *et al.*,

2000) or poor financial and credit management practices. Here, the solution to alleviate late payment is simply to improve credit management practice. Nevertheless, the literature highlighting mismanagement in small businesses has been criticized for being largely informed by deductive empirical research concerned with practice prescribed for large firms being appropriate for SMEs (Jarvis *et al.*, 2000, Matthews, 2013). Perren and Grant (2000) argue that differences in perspective account for the differences in findings. Thus, Matthews (2013) says that little is known of firm-level trade credit management in small businesses.

So far, legislation has not demonstrated efficiency in solving late payment (Edmonds, 2014) so the explanation of actors' intentional late payment is inadequate alone (Paul and Boden, 2012). As a second explanation, although SMEs' mismanagement fails to win unanimous support, it remains promising: late payment as an organizational phenomenon deserves to be more deeply examined.

We introduce the concept of organizational routine to study late payment through trade credit routine. Routines are central to organizational action and a growing group of scholars have started to view routines from a process view, i.e. seeing them as fundamentally performative accomplishments that can be sources of change as well as stability (Howard-Grenville *et al.*, 2016, Feldman and Pentland, 2003). The focus is on studying the internal dynamics of organizational routines, to understand how they persist and/or change (Habib and Krohmer, 2016) and thereby identifying ways to influence, design or manage organizational routines (Pentland and Feldman, 2005). Moreover, the chosen case study method (we study the trade credit relationship between a large Spanish public company and its Spanish SME suppliers) allows to focus on routine dynamics in an exemplary two-sided business relationship between a large company and SMEs. Thus, the concept of organizational routine together with the case study method fits with our wish to study late payment through firm-level practice. The study aims to deepen understanding of late payment (and its persistence) as an organizational phenomenon through trade credit routine and to discover ways to alleviate it.

This paper contributes to the theoretical understanding of late payment by identifying, characterizing and focusing on the routine dynamics of trade credit routine. The methodological choice of the case study together with the newly introduced concept result in a change of perspective and a two-sided firm-level study. Practical insights of an exemplary SME-large company relationship help practitioners gain better understanding of late payment, its persistence and means to alleviation.

We now explore late payment literature and the analytical framework in more detail before presenting the methodology, findings and the contribution and implications of our study. To conclude, we discuss the limits of our approach and avenues for future research.

### **Theoretical Basis of Late Payment: Explanations and Means of Alleviation**

#### **ACTORS' INTENTIONAL WISH NOT TO PAY EXPLAINS LATE PAYMENT**

Howorth and Wilson (1998) state that interdependent assertions that highlight actors intentionally not wanting to pay explain late payment. The first assertion is that trade credit is part of

the overall financing strategy of business. Trade credit often fills the finance gap, notably for smaller companies that often find themselves credit rationed by the banking sector. Howorth and Wilson (1998) state that "firms who pay late see it as a legitimate source of finance" (p. 307). Grey literature has also widely studied the reasons for late payment among companies. A survey, conducted in 29 European countries plus Russia and Turkey, with over 9,800 private and public businesses, from microenterprises to very large companies, from all economic sectors, indicates that nearly 65% of respondents establish that late payment is intentional (Intrum Justitia, 2014).

The second popular assertion is that late payment arises from customers who dominate their suppliers and exercise market power to obtain cheap funding. Peel *et al.* (2000) found large firms to be the worst offenders. Similarly, Paul and Boden (2011) quote the European Commission that reports: "SMEs are owed twice as much trade credit as they themselves owe to large businesses". If Johnson *et al.* (2002) document that firms do not intentionally pass payment delays from customers to suppliers, Fabbri and Klapper (2009) establish the opposite: companies delay their payments in relation to their collection days in order to match credit terms between accounts payable and accounts receivable according to their market power and existing competition. The European Commission report (2016) states that "many SMEs continue to accept long payment terms imposed by larger companies" (2016, p.3).

#### **LEGISLATION AS THE SOLUTION TO ALLEVIATE LATE PAYMENT**

Having highlighted the will of actors' intention not to pay, the European Community tried to alleviate late payment (Bilotta, 2013, European Commission report, 2016). As early as 1992, the European Community drew up a document on recommendations on payment delays between firms. These recommendations did not produce the expected results which led to Directive 2000/35/EC defining the average number of days for private companies to pay suppliers. A large number of European countries then introduced the terms of this directive into their national law. Spain, for example, did this in 2004 (Ley 3/2004, BOE 30 XII). The European directive and Spanish law were then revised (2011/07/EU and Ley 15/2010) and now include public companies. However, the application of the new directive and Spanish law were not compulsory until March 2013. Consistent with slight improvement, the recent European Commission report (2016) states that "market imbalance cannot be fully remedied by legislative actions alone" (p.4).

The UK case is interesting because it developed legislation against late payment before Europe. Studies did not demonstrate the direct efficiency of the Late Payment of Commercial Debts Act of 1998 and the Company Act of 1997 (Edmonds, 2014; Paul and Boden, 2012).

#### **MISMANAGEMENT EXPLAINS LATE PAYMENT**

Poor financial and credit management practices are also said to be at the heart of late payment (Howorth and Wilson, 1998). Customers delay payments simply because of their inefficiency in terms of financial and credit management practices. Thus, poor

credit management is considered one of the factors that increase company failure (Summers and Wilson, 2000; Peel *et al.* 2000); this phenomenon is notably relevant to SMEs. Companies should have clear policies to manage consequences of delayed payments (Peel *et al.*, 2000; Summers and Wilson, 2000), but in general, this is not the case (Paul and Boden, 2011). Paul and Boden (2011) thus conclude that most SMEs have failed to develop appropriate and effective credit management. Trade credit is a neglected function with a focus on collection rather than front-end activities: companies do not send invoices or statements on time or they apply poor trade credit management practices (lack of written credit policy or no time in front-end activities like assessment of credit risks) that carry into inefficient decision-making in terms of use of trade credit (Paul and Boden, 2011 and Peel *et al.*, 2000). Howorth and Wilson (1998) highlight unsystematic, cautious or apologetic credit management practices: customers paying up to one year after the invoice or saying “we don’t operate the Rottweiler approach” (p. 311). Peel *et al.* (2000) find that smaller firms were less likely to conduct formal analysis into the reasons for late payment than their larger counterparts. Furthermore, SMEs “employ few staff to deal with trade credit management despite their acknowledgement of the seriousness of this issue” (Paul and Boden, 2011, p. 742). Thus, the Intrum Justitia survey highlights a very relevant variable explaining late payment: more than 45% of respondents chose administrative inefficiency as a reason for the years 2010-2013 and 51% of respondents in 2014.

#### **IMPROVED FINANCIAL AND CREDIT MANAGEMENT PRACTICES COULD ALLEVIATE LATE PAYMENT**

In the study of Peel *et al.* (2000) only 15.4% of small businesses strongly agree that “more financial management is required in the small business sector” (p.23). The authors say that this may express respondents’ reluctance to associate internal factors, such as financial and credit management, as impediments to improving business performance and/or their ignorance of the benefits of improved financial management. The authors also insist that the literature states that policies providing financial and credit management training for smaller businesses would have a beneficial impact. Paul and Boden (2011) suggest that there are four aspects to improvements in trade credit management: policies, people, processes and practices: (1) Companies should have a well-documented trade credit policy, allowing change, flexibility and adaptability; (2) Following Peel and Wilson (1996), they say that firms should make proactive use of trade credit policies to prevent, rather than cure, the problem of late payment; their results show that companies work responsively rather than proactively; (3) They conclude quoting Wilson (2008, p.107) that SMEs should copy larger firms that “take more care to categorise customer risk and implement better credit control and payment methods and it is these arrangements that give rise to more prompt payment for the customer base”; (4) Once again they quote Wilson (2008, p.106): “SMEs that had adopted sound credit management practices found late payment less of a problem” and “education in financial and credit management practices would do more to reduce late payment problems than other interventions”. Thus, Paul and Boden (2012) declare that ways in which both suppliers and customer firms organize themselves internally, together with their attitudes and behaviors, are absolutely central.

#### **SMEs ARE NOT JUST “SMALL” BIG COMPANIES**

The above literature that highlights mismanagement in small businesses has been criticized for not taking into account the specificity and complexity of SMEs. Jarvis *et al.* (2000), studying SMEs performance measures, say that “best practices” derive from large companies’ management and SMEs pursue a range of goals of which most important are survival and stability rather than maximizing growth or profit. Perren *et al.* (2000), investigating decision-making processes, found approaches to skills development in SMEs that “may seem haphazard” but that “are appropriate for the scale of business, being timely, low risk and requiring little resource” (p.351). Ekanem (2005) found that none of his SMEs employed conventional methods in their investment decision-making process but “systematic and logical thought process” (p.315). Matthews (2013) explains that the understanding of trade credit management in the context of normative, formal practice has only provided a one dimensional view that fails to recognize and incorporate SMEs’ diverse and complex range of goals and motivations. Stability and survival are crucial and small professional firms strive “to create long term, mutually beneficial relationships with clients, demonstrating their willingness to invest in relationships and thus approach trade credit management collaboratively” (p.445). Preference for informal practices reflects the perceived utility of experiential learning (considered both more effective and more appropriate) and the rejection of the formalized approaches they were aware of. Using qualitative methodology and leaving aside formalized, objectified, financial management practices, the above authors found practices to be effective, even if they were informal, subjective and unconventional. They underline that their methodological approach enabled them to discover these practices. St-Pierre and Fadiel (2016) advocate qualitative approaches to get closer to SMEs. All authors highlight the need to better consider the specificity and complexity of SMEs’ financial practices notably through changes in perspective and methodology: the introduction of the concept of organisational routine allows both.

#### **Analytical Framework: The Concept Of Organizational Routine**

The concept of organizational routine was introduced by Stene (1940) and has been widely used to explain many firms’ actions since then, but to our knowledge, not late payment. An organizational routine can be defined as “repetitive, recognizable patterns of interdependent actions, carried out by multiple actors” (Feldman and Pentland, 2003, p.95). Trade credit process can be viewed as an organizational routine: a SME supplier sells goods or services daily to its customers (among them large public companies) using trade credit; the SME then receives regular payments from these customers (repetitive aspect); in both firms (supplier and customer), the trade credit process includes a trade credit policy, invoicing and payment (recognizable patterns of interdependent actions, involving multiple actors). Therefore, late payment in trade credit process can be studied at firm level with no assumption of any normative prescription. Introducing the concept of organisational routine enables us to study the phenomenon from a different perspective and using a different methodology.

Feldman and Pentland (2003) and a growing group of scholars (Howard-Grenville *et al.*, 2016) view organizational routines as fundamentally performative accomplishments that can be sources of change as well as stability. They adapt Latour's (1986) distinction between ostensive and performative to comprehensively explain the concept of organizational routine. This concept consists of two related parts. "The ostensive aspect is the ideal or schematic form of a routine. It is the abstract, generalized idea of the routine, or the routine in principle. The performative part of the routine consists of specific actions, by specific people, in specific places and times. It is the routine in practice" (Feldman and Pentland, 2003, p.101). They use Ryle's (1949) terms to sharply define these two parts: the ostensive part is like "know that" and the performative part entails "know how". The organizational routine's parts are related recursively: on one side, the ostensive part constrains and enables the performances and on the other, the performances create and recreate the ostensive part. The focus is on routine dynamics (Howard-Grenville *et al.*, 2016); studying the internal dynamics of organizational routines contributes to understanding both their persistence and change: Feldman (2000) locates the potential for change in the internal dynamics of the routine itself. Pentland and Feldman (2005) focus on issues of divergence between the ostensive and performative parts. Thus, the ostensive part of a routine can remain stable serving as a goal, while performances change in order to better match it. A close match between parts seems likely to predict stability. Habib and Krohmer (2016) study the equilibrium between the two parts and introduce the relative weight of each to explain beneficial and detrimental changes and persistence.

Additionally, actors and agency are core elements of organizational routines. Studies reveal that people contribute to both the flexibility and persistence of routines: People "breathe life into the routines they engage in because of the relationship between their behavior and their plans and ideals" (Feldman, 2000, p.627); they contribute their particular understanding and motivations, and the interactions and power dynamics between different groups can shape change or persistence (Parmigiani and Howard-Grenville, 2011).

"Our need to understand internal dynamics is particularly strong if we want to influence, design or manage organizational routines" (Pentland and Feldman, 2005, p.793). Thus, the concept of organizational routine fits our wish to understand late payment through practice at firm level and discover ways to alleviate it, focusing on both large companies and their SME suppliers.

## Methodology

### RESEARCH DESIGN: THE CASE STUDY

The research aims to improve understanding and corresponds to an exploratory approach. The case study is a specific method of qualitative analysis where "the logic at work partakes of discovery and meaning construction" (Pail e and Mucchielli, 2003). Collerette (2004) explains that "one main advantage of the case study method is to supply a situation where the interaction

of a huge number of factors can be observed as a whole, thus giving due recognition to the complexity and variety of social situations". The case study is therefore consistent with both the phenomenon studied (late payment) and its objective (understanding late payment). The aims are to understand reality and to enrich existing theory. The exemplary case study (we found no existing study of the payment relationship between a large company and its SME suppliers) produced new knowledge (Yin, 2003). Thus, Paul and Boden (2012) state that "Existing research on trade credit is not extensive and is largely quantitative" (p.5) and that "Qualitative work of this nature gives insights that quantitative work cannot (...) and "allowed insights into the realities of trade credit relationships" (p.5).

### A CASE STUDY: THE PAYMENT RELATIONSHIP BETWEEN A LARGE SPANISH PUBLIC COMPANY AND ITS SPANISH SME SUPPLIERS

The unique case study is based on the analysis of the relationship between a large Spanish customer company and its small Spanish SME suppliers. Three factors determined the choice of the relationship:

1. Spain has been particularly affected by the financial crisis so the payment relationship has taken on even greater significance (Garcia-Appendini and Montoriol-Garriga, 2013). The "Plataforma Multisectorial contra la Morosidad" (confederation of employers' associations created in 2008 in order to "fight late payment in Spain") situates the average payment period in the public sector at around 82 days but explains that some reports situate it as high as 154 days (El Mundo, 18/10/2015).
2. Spain has a central government but is also divided into 17 "comunidades aut nomas" (autonomous communities). The autonomous community, where the studied firms are located has its own local government and the power to legislate. This made access to data easier: we were able to interview the vice-minister of Economy, collect documents for internal company use and study a public company belonging to the local government.
3. The literature insists on late payment resulting from customers who dominate their suppliers, large firms being "offenders" and SMEs "victims". The studied relationship analyzed the power relationships between large and SME companies.

### COLLECTION AND ANALYSIS OF DATA

Data were collected from November 2011 until July 2014, on both sides of the relationship. Primary and secondary data were collected. Semi-structured interviews were carried out with two members from local government in the large public Spanish company, and with SME suppliers (Table 1).

The fourteen SME suppliers of the large company were called and asked for interviews. Eight of them refused long-term participation in the research but talked briefly with us. The resulting information was not formally included, but exchanges were consistent with collected data. Paul and Boden (2012, p.16) highlight the

1. We carried out a review of papers that was published in Web of Science on 21 January 2016: 115 papers were published in 2014, 2015 and 2016 using "Trade credit" in the title. Only one included qualitative data. None of them used Spanish data. Most quoted papers only use quantitative data.

difficulty of interviewing small firms recruiting only 15 SMEs for their national study. We seek theoretical generalization and our sample allowed both richness and saturation of data (Yin, 2003): Table 2 shows the variety of economic sectors and size of firms (micro, small and medium) in the complete list of SME suppliers.

Secondary data were collected both in the large public company (documents) and in the SMEs (accounts) (see Table 1).

Interviews were fully recorded and transcribed (except notes for the interview with the Vice-minister of Economy). The interview guide did not focus on late payment. Both the large company and the SMEs were invited to give further details when SMEs and the large company were mentioned but there

was no specific question on this. Companies were asked questions on their financial and cash management and asked later in the interview, to talk more about late payment and related legislation if they had not referred to these spontaneously.

We analyzed data using Nvivo10. We discovered the routine performative approach once data collection had already begun: This approach provided us with insights that enabled us to see more clearly how to analyze company practices. Through constant iterations between theory and fieldwork, we were able to codify the material (the overall context of the routine, its ostensive and performative parts and the movements between ostensive and performative) thereby making sense of the data.

**TABLE 1**  
Case study Data

Data collected and analyzed (November 2011 till July 2014)		Length of interviews
Large public company primary data	Interviews with the vice-minister of the Economy and the director of Economic Control of the local government.	1.5 hour on average
	– Interview with a senior executive, – Several phone calls were added and e-mails (for details) – Her selection was based on her previous working experience both in the company and in the banking sector: she has almost 20 years experience in this company (from first to latest): *Operational position, *Finance department, *Purchases and Contracts *Finance department (treasury) for more than 8 years now	
	Interview with the director who provided the list of SME suppliers and related invoicing	
	Proposal of agreement on payment periods from Spanish local government (internal use)	
Large public company secondary data	Circular on payment periods from Spanish local government (internal use)	
	Average payment period figures from all public companies published on the Spanish local government website	
	Interviews with the managing director and the financial director of SMEs n°1-n°6	1.5 hour on average
SMEs primary data	SMEs' Accounts from 2014 SABI database	

**TABLE 2**  
Company Data

Companies	Sector	Type Year of Incorporation	Size (2012 Revenue in €)	Size (number of employees)	Size	Credit policy
Large public company	Transport	Public (shareholder Local Government) 1982	6.780.330	863		
SME n°1	Industrial services	Limited Company 2010 Family business	1.054.388	16	Small	NO
SME n°2	Industrial goods	Limited Company 1959 Family business	1.792.764	11	Micro	NO
SME n°3	Manufacturing	Cooperative Limited Company 1982	12.877.916	65	Medium	YES
SME n°4	Wholesale machinery and equipment	Limited Company 2002	4.256.150	29	Small	NO
SME n°5	Fuel services	Public Limited Company 1989	44.482.665	40	Medium	YES
SME n°6	Engineering	Public Limited Company 1988	9.713.313	102	Small	NO

The analysis from multiple perspectives (large public company, SMEs, analysis of primary and secondary data) enabled us to (1) triangulate the data thus establishing validity (authors' involvement in the collection, analysis process and writing made investigator triangulation possible), (2) triangulate the methodology and (3) enrich the case study. Patton (2002) highlights that inconsistencies found across data sources or approaches should not be seen as weakening the evidence, but should be viewed as an opportunity to uncover deeper meaning in the data.

### Findings: Contrasting situations in trade credit routines of the large company and SMEs

We contrast change dynamics in trade credit routines in the supplier (SMEs) and customer (large company). The routines turned out to evolve differently in SMEs and the large company.

#### THE LARGE PUBLIC COMPANY: ARDUOUS CHANGE IN A DEFECTIVE TRADE CREDIT ROUTINE

##### The Context of Trade Credit Routine in the Large Company

To combat late payment, Spanish law required companies to progressively cut down payment period objectives; Objectives for public companies are shorter than for private firms (Table 3). It must be highlighted that the autonomous community owns the large company and has its own government and power to issue laws and circulars and thereby to "adjust" national law if so desired. The company owner, people from the finance department and people in charge of contracts are the main actors of the trade credit routine.

##### Description of the Routine

The trade credit routine has five main stages: Requesting work from supplier, requesting a subsidy from local government, receiving an invoice after work is completed, starting and finishing administrative procedure and paying the invoice according to the trade credit policy defined by the company owner.

Whenever work is requested from a supplier, doing the work itself takes precedence over administrative formalities, and those in charge of contracts mostly do not kick off the procedure by issuing an order form. Moreover, very often they have not completed the order form by the invoice due date. Not issuing the order form prevents the finance personnel from continuing the administrative procedure and thus delays its completion and the payment of (due date) invoices. Furthermore, calculating the subsidy needed (requested quarterly and based on forecast need), notably on order forms, is then disrupted. Consequently, finance personnel always "ask for far more money than what is really needed" in order to compensate for what they know to be a lack of information. However, recently, subsidies received

have been less than the amount requested and both the company owner and the law have ordered shorter payment periods. All in all, both parties highlight that their "management and invoicing process are quite arduous". Criteria for paying invoices is then based on insistence. The senior executive says: "if a small company does not have a department paying attention to the due date of invoices and calls very frequently saying that they really need the money, then I put it to the bottom of the pile". As a result, quarterly information on the fulfilment of payment periods shows no logic: 83 days (3rd quarter of 2011), 148 days (4th quarter of 2011) and 111 days (1st quarter of 2012). Average payment periods were 128 in 2011 and 132 in 2012.

The routine output did not change in any significant way during the study period despite attempts to change. The much shorter payment days defined by the company owner and Spanish law do not match long established practices.

##### An Imbalance in the Internal Mechanisms of the Routine

The company owner, the autonomous community, and the context (national law) play a very significant role in shaping the ostensive part. The autonomous community issued a circular which progressively cut down payment periods at a quicker rate than the periods defined by Spanish law (the local due date is 6 months earlier than that defined by Spanish Law) (Table 3). The circular clearly states that "this agreement takes priority over other financial policy criteria, prohibits the use of prolonged delays as funding tools as well as any cash policy that would hamper the achievement of the law". It specifies also that "specific steps will be taken in order to make payment days regular throughout the year"; holiday periods are given as an example; these declarations result from the owner's experience of company practice; they are not mentioned in Spanish law. The circular highlights the strong wish to eradicate late payment, notably by toughening up the implementation of the law. The ostensive part is defined to constrain the performative part.

The local government vice-minister of Economy also explains: "I understand that some private companies do not pay their suppliers when they have no money, and this highlights the domino effect on other firms, but public companies must not do that, we (owner of public companies) have been saying that from the start, and we have insisted a lot on shortening payment periods to suppliers". He explains that this goes against traditional economic theory; indeed "when public companies' are short of cash, they should stretch the length of payment periods to their suppliers; but we must do the opposite in order to take care of the suppliers, their employees and families". The trade credit policy is defined to obtain shortened and timely payment. This is not what actually happens in practice: payment can be slowed down because subsidies do not come in. Thus, one of the SME suppliers says: "they did not pay two very small invoices

**TABLE 3**  
Spanish Law and local government Circular: payment period objectives

Commercial firms	Public companies	Starting date (Spanish law)	Starting date (Spanish Province circular)
75	40	01/01/2012	01/07/2011
60	30	01/01/2013	01/07/2012

in January that should have been paid and then they paid for all the invoices of February which came to a far greater amount; (...) I spoke with the accounting department recently and they are waiting for the subsidy to pay us". The vice-minister also adds that "the ideal situation would be to have no more than one euro in cash every day of the year in order to inject into the Economy as much money as possible". Practice is far from ideal: the senior executive explains that their poor forecasting results in subsidies being requested that greatly exceed need. When delays were longer, laborious management mattered less. Practice illustrates the current imbalance between the ostensive and performative parts.

#### Constant Repetition of Unsatisfactory Practices.

Practice reveals the very significant role played by the actors. Thus, the large company identified an important source of delay in payments and tried to take corrective action. Attempts to repair the defective routine failed because of the actors, both in the large company and in its SME suppliers. Whenever the company asks a supplier to do the work, the people responsible for contracts should initiate the administrative procedure (order form) but very often they have not yet done it by the time the invoice is due; this prevents timely completion of the administrative procedure and in turn timely payment. Moreover, subsidies are requested on the basis of forecasts and forecasts are based on the information collected from employees; this includes the work completion dates and the invoicing dates for contracts. The senior executive explains: "some people in charge of contracts think that doing the work is more important than filling in the order form"; she explains that "people in charge of contracts have been trained. In the same way, SMEs agree to carry out work without any order forms, although the large company sent their suppliers letters asking them to realize no work without having received the appropriate document. In both companies, the actors in charge of doing the work act in the same way: work comes first. The ostensive part of the routine is not shared by all actors. Corrective action (training and request letters) failed. Non-sharing of the ostensive part of the routine is reinforced by matching long-established practices of the interacting actors in both companies. The impact of such practices was reduced by the former longer payment periods.

The respective concerns of the company owner and some large company and SME actors produce an imbalance in the internal mechanisms of the routine. The performative part predominates at the expense of the ostensive part. But the ostensive part, highly

supported by the company owner and the law in force, induces attempts to change the performative part in order to make both parts match. Matching appears to depend on the sharing of the ostensive part by actors in the two companies (Table 4).

#### SMEs: STABILITY IN A PERSISTENT TRADE CREDIT ROUTINE

##### The Context of Trade Credit Routine in the SMEs

The accountant and the owner-manager, the main actors of trade credit routine, work closely and agree on the chosen trade credit routine. We never encountered divergence of opinion during interviews. When questioned, SMEs never spontaneously broached late payment legislation and granted it no importance.

##### Description of the Routine

The trade credit routine has two main stages: invoicing and collection of amounts due.

Business prevails over trade conditions. Companies did not elaborate on accepting work and agreeing payment terms. SMEs insist on working mostly with regular customers, among them the large company, and wish to work with new customers. Work is the predominant concern. Once invoicing is done, SMEs wait for payment and focus on the payment commitment, not on the length of the payment period. Late payment is usual for SMEs who justify this because their customers are "trustworthy" and they are understanding about "administration". This attitude is based on long standing relationships and a history of doing business together. Waiting length varies according to each company's practices. SMEs never call about payment on the due date. They always wait long after that (1 month, 6 weeks etc.) before calling to find out about the payment. They continue to call their customers until they are paid.

##### A Balanced Routine: The Top Priority Is the Commitment to Pay, Not Paying on Time.

During the interviews, SMEs continuously repeated "you know that you will be paid"; the payment commitment is their top priority. SMEs also say that the large company "is paying them well" and "Firms which are usually good payers are good payers". Paying well does not mean paying in time. Delays do not seem to be so important, and late payment is usual. When faced with late payment, one SME thus states: "One month after the due date, we call the customer or send an email". SMEs wait a long time after the due date. One states: "I wait for a month, a month

**TABLE 4**  
A defective trade credit routine in the large public company

Ostensive part:	Performative part:
Strong wish to ensure that payments are shortened and timely and that law is upheld	Irregular payments, often after due date
Internal mechanisms of the routine are imbalanced:	
The ostensive part is made more restrictive than the law and is maintained	Constant repetition of unsatisfactory practices due to long-established practices
The ostensive part constrains the performative part But attempts to modify practices in order to match the ostensive part fail	



and a half to see what is going on”. The similarity of terms SMEs use to describe the situation is striking. These words highlight the commitment to pay (rather than the long delays) as part of the ostensive part, and their practice of waiting for long after the due date or not paying much attention to late payments match this ostensive part. The balance between the ostensive and performative parts makes the routine stable.

**A Balanced Routine: The Focus Is on Taking Care of the Business Relationship**

SMEs put the business relationship first. A SME says: “We behave straight, I do not want to be nagging all day looking grim, this is not behaving properly”. He adds that their business partners do not behave like that either, they also do not call them on the due date. Another SME gives the example of a customer whose huge delays are endemic: “It was already like that thirty years ago when my father was head of the firm”. He adds “it is one of my best customers” and “he always ends up paying, he is not a bad customer, if you don’t give him a hand, he will have a hard time, it is about helping within our possibilities”. SMEs highlight their resolve to take great care of the business relationship through their wish to behave “properly” and “help” their customer; this includes accepting the non-respect of due dates as long as the customer fulfils payment commitment. Their idea of taking care of the relationship and the actions that result, are not disrupted by late payment and thus keep the routine stable.

**How Financial Organisation of SMEs Considers Late Payment**

Two SMEs clearly state that profit earned in profitable years helps manage the firm in less profitable years: “I have cash for whatever is needed”. All other SMEs stated that they had no excess cash in recent years. SMEs operate with a higher working capital and all firmly and quickly declare that they do not pass their cash problems onto their own customers: “We do not do that, no, no” and “it is not in our practice to lengthen payment periods”. The second largest SME does not formally analyze late payments: they deal with them “as we go along” and then “talk with the department in charge of financial questions” as do the four smallest firms studied. Even now, when one SME notices a greater number of delays than before, nothing is changed to the current financial organization: “I have been waiting, I have been waiting”. They wait before calling to get an explanation. SMEs say that claims are few because “you always wait”. Only the bigger of the two medium SMEs acts differently, showing a structured financial organization: the financial manager

answered most of the questions by adding precise financial information (computer switched on): “late payment represent 1% of the revenue by today” (no precise quantification was requested). No other SME gave us precise quantification of late payment. This SME also organizes a weekly meeting about late payments. The meeting takes place with sales staff to let them know about payment problems: they are told “the reasons for late payment” and made “aware of late payment” to adjust the business relationship. Five SMEs out of six have integrated late payment as a normal element of operation and consequently, have adapted to it. This accounts for the persistence of the present routine. Only the biggest firm has implemented a specific organization in order to ensure payment in due time and shortened delays (Table 5).

Key discoveries, focusing on the role of organizational routines in understanding and solving late payment, are summarized in Table 6.

**Contribution and Implications**

This research contributes to theory by enriching the literature on late payment, both in terms of explaining the phenomenon and in terms of alleviating it. Explanations of late payment remain inadequate (Paul and Boden, 2012). The role of organizational phenomena through SMEs’ mismanagement is both highlighted (Howorth and Wilson, 1998) and criticized for being inappropriately studied (Perren *et al.*, 2000, Ekanem, 2005). The concept of organizational routine that we introduce to study late payment for the first time, allows for a deeper study of late payment as an organizational phenomenon through trade credit routines. Findings show the relevance of late payment as an organizational phenomenon. The concept of organizational routine makes it possible to identify and characterize trade credit routine (Feldman and Pentland, 2003) and focus on routine dynamics (Howard-Grenville *et al.*, 2016); this focus allows us to concentrate on both persistence and change in routines, which contributes to understanding persistent late payment and revealing ways to change it.

Furthermore, the study provides a unique perspective by examining the exemplary relationship between a large company and its SME suppliers. Findings extend and support the literature that relates the major significance of SME specificity (Jarvis *et al.*, 2000) They also extend the literature on mismanagement in SMEs and the influence of large companies by highly nuancing them (Paul and Boden, 2011).

<b>TABLE 5</b>	
<b>Stability of a persistent trade credit routine in SMEs</b>	
<b>In 5 out of 6 SMEs:</b>	
<b>Ostensive part:</b>	<b>Performative part:</b>
Top priority is payment commitment and focus is on the business relationship	Practices focus on being paid, not on timely payments
<b>In the sixth SME:</b>	
<b>Ostensive part:</b>	<b>Performative part:</b>
Top priority is payment commitment and focus is on the business relationship but also on delays	Performative part: Practices focus on timely payments
Internal mechanisms of the routine are balanced: The ostensive and performative parts of the routine match	

**TABLE 6**  
**Summary of key discoveries**

Results do not confirm that actors intentionally withhold payment or pay late as a result of dominant customers exercising market power. SMEs say from their experience that paying on time is more a question of habit than size and power. So, results are consistent with studies that do not demonstrate the efficiency of legislation and highlight late payment originating in organizational phenomena.

**(Im)balance in trade credit routine explain late payment**

<b>Imbalance in the routine explains large company's late payment</b>	<b>Balance in the routine explains late payment in five out of six SMEs</b>
Results match Johnson <i>et al.</i> (2002)'s where firms involuntarily pass on late payment from clients to their suppliers. We can draw a parallel with late payment to customers because of tardiness in receiving subsidies. Howorth and Wilson (1998) state that customers delay payments to their suppliers simply because of their inefficiency in terms of financial and credit management practices. Waiting for the subsidy or failures in administrative work are examples of such inefficiency. There is a strong imbalance between the ostensive and performative parts of the routine. The wish to greatly shorten delays does not match long established practice. People in charge of contracts do not share the (former and present) ostensive part of the routine and so prevent timely achievement of trade credit routine and payments. The double effect of "hardening" the ostensive part and the recurrence of dysfunctional practices reinforces the imbalance between both dimensions of the routine. Attempts to modify practice, to make both parts of the routine match, fail because of the relevant actors' non-modified understanding. The ostensive part constrains the performative part but does not enable it. The (im)balance plays an important role in routine dynamics: equilibrium favors interaction between both parts of a routine and changes are more easily understood and accepted by actors. The disequilibrium of the current routine weakens its change dynamics (Habib and Krohmer, 2016) and explains late payment.	SME's first consider commitment to pay, then the business relationship. Both are more important than late payment. Thus, the trade credit routine highlights no specific financial organization to ensure timely payment and shorten delays. The ostensive and performative parts of the routine match perfectly but neither focus on delays. A good customer is not a customer paying on time but one who provides recurrent good business and pays for it. Our results are consistent with Jarvis <i>et al.</i> (2000) and Matthews (2013) who say that survival and stability are the most important goals of SMEs, not maximizing profit, and Peel <i>et al.</i> (2000) who say that the focus is on collection rather than assessment of credit risks. Howorth and Wilson's (1998) examples of customers paying up to one year after the invoice or saying "we don't operate the Rottweiler approach" are a mirror image of our SMEs experiences: a SME with endemic delays is qualified as a good customer, accepting delays means providing help and demanding payments means not behaving properly. Our results are consistent with Matthews (2013) who states that small businesses strive to create long term and mutually beneficial relationships. Only the sixth SME, classified as medium size, focuses on late payment and has a specific organization to find the reasons for late payment and take this into account in the commercial relationship. Our results confirm the finding of Peel <i>et al.</i> (2000) that smaller firms were less likely to conduct formal analysis into the reasons for late payment than their larger counterparts. Equilibrium in the routine favors interaction between ostensive and performative parts and the routine can then be a source of stability while considering, or not, delays (Pentland and Feldman, 2005).

**Focusing on change dynamics of routines could alleviate late payment**

<b>Actors' role is highlighted in the routine in both companies. And understanding the internal dynamics of the routine provides ways about how to motivate change (Pentland and Feldman, 2005)</b>	
In the large company, attempts to modify practices failed because understanding of the ostensive part did not change. The failed attempt to modify practices thanks to the SME suppliers is notable. Actors in both companies bring their particular understanding (work comes first for people in charge of contracts and SMEs understand this) and motivations (SMEs take care of business relationships and so do the work) and the interactions between actors of both companies shape the persistence of the performative part. Bucher and Langley (2016) underline the difficulty of reorienting performances when routines consist of interrelated subroutines and involve the interaction of many people. Thus, people in charge of contracts have to understand that their actions not only affect work, but also the trade credit routine. SMEs have to understand that expectations go beyond doing the work. This highlights the significant role of actors in both companies in the performative part of the routine in the large company.	In the SMEs, the organization's culture plays a very active role in shaping the integration of routines (Bertels and Howard-Grenville, 2016). Thus, most SMEs are convinced that insisting on being paid at due date "is not behaving properly" because their business partners do not behave like that. Yet, this is not the case of the sixth SME. Actors "tend to continue to draw on familiar cultural strategies of action shaping how a routine is performed" even when the routine is poorly fitted because "cultural strategies of action are tenacious" (Bertels and Howard-Grenville, 2016, p.31). So, even when one SME noticed more delays than before, it changed nothing in its financial organization, it still waited for a long time before calling the customer and made no formal analysis into the reasons for late payment. Results show that most SMEs have no trade credit policy. Thus, the second biggest SME, (medium sized), handles delays "as we go along". SMEs work responsively rather than proactively (Peel and Wilson, 1996).

This research contributes to methodology by following authors focusing on SMEs who advocate a change of perspective (Jarvis *et al.*, 2000), to get closer to SMEs (St-Pierre and Fadil, 2016) and studies at firm level (Matthews, 2013) to guard against preconceptions. The methodological choice of the case study together with the concept of organizational routine allow all three: a change in perspective, a closer approach to companies and studying them at firm level; these three aspects prove relevant to SMEs as well as to the large company, and enable the study of late payment in SMEs and in a large company, while taking into account the SME-large company relationship, and focusing on change dynamics.

The literature offers explanations of late payment and related solutions which have led to legislation and policies so far lacking in major impact. Authorities (European Commission report, 2016) emphasize the size and power of large companies that are considered the "offenders" with SMEs the "victims". Firm level and relationship insights together with a focus on organizational phenomena help practitioners gain better understanding of the persistence of late payment and ways to alleviate it. Findings do not reveal the influence of the large company's size and power; conversely, they highlight the imbalance between the wish to eradicate late payment and non-matching practice. SMEs appear to focus on the business relationship. Most SMEs highlight the

balance between the priority of payment commitment (rather than delays) and matching practice. (Im)balanced trade credit routines explain late payment. Late payment is an organizational firm specific phenomenon.

Moreover potential for change, and alleviation of late payment, is located in the internal dynamics of the routine and in participants' understanding. Findings highlight that timely payment is not shared by all participants in the large company and is not sought by most SMEs. Taking into account the highlighted firm organizational specificity is crucial to routine change and alleviation of late payment.

### Limitations and Opportunities for Future Research

This research has limitations, which at the same time provide opportunities for future research.

First, our study is based on a single case study. It highlights a complete view of late payment in an exemplary two-sided large company-SME relationship. To enrich and generalize findings, the study of late payment through the lens of organizational routine should be replicated in other companies and relationships facing late payment (from different countries), given the worldwide damaging effects of the phenomenon.

Second, we cannot ignore the literature, surveys and the European Commission which insist on the importance of intentionality and the power of dominant customers in late payment. Studying other large company-SME relationships could help to reveal these aspects and their links with organizational routine. Studies should also be enlarged to other types of relationships such as ordering institutions and subcontractors.

Finally, we suggest ways to alleviate late payment, notably the important role of actors and their understanding. Future research should deepen the role of reflective talk because talk can help in bringing about routine change, "talk provides distinctive opportunities for highlighting problems or opportunities, which might otherwise go unaddressed" (Dittrich *et al.*, 2016, p.27). So, reflective talk mixing SMEs focusing on late payment and SMEs focusing only on payment commitment could help the latter change their routine.

### Conclusion

Late payment remains a worldwide so-far unsolved phenomenon with damaging consequences on companies despite constant attention from both academics and authorities. This study aimed to deepen understanding of late payment and its persistence attempted to discover ways to alleviate it; for this we built on some authors' recommendations to change the perspective of SME studies, to examine the promising explanation of late payment as an organizational phenomenon and to investigate the emblematic large company-SME relationship. The newly introduced concept of organizational routine to study late payment allowed us to study it more deeply as an organizational phenomenon through trade credit routines. Focusing on the identification, characterization and internal dynamics of routines in a large company and SMEs contributes to improved theoretical and managerial understanding of late

payment, late payment persistence, firms specificity and means to change. Following Feldman (2000, p.626), we are convinced that "change can be more ordinary and that routines can be more extraordinary than they are often portrayed".

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