

Late Payment of Invoices: Is it an Ethical Practice?

Abstract

The most common payment practice of many large firms is to pay their suppliers beyond 30 days post-invoice; this becomes unsustainable for the small business to have enough running costs to continue their operation. Small businesses have little influence on the late payments, which affect their growth and job creation opportunities on a wider scale. In this paper, we collect evidence of adverse effect of late payment and propose how to create an ethical awareness to mitigate the financial problems associated with late payment to small businesses. This paper considers the detrimental effect of late payments on small businesses in the UK and, based on a new theoretical framework, we make recommendations to encourage meaningful motivators for invoices to be paid on time in practice. The findings will enrich the small business literature and will guide the policy makers to find a model that could provide more clarity of their existing policy on late payment.

Keywords:

Late payments; Small business; Sustainability; Action Research

Data Availability: The data that support the findings of this study are available from the corresponding author upon request

Conflict Declaration: There is no conflict of interest

1. Introduction

In 2017, the UK government launched the late payment reporting guidance¹. According to the Small Business Minister, Margot James, the UK is a home to a record of 5.5 million small businesses (SME²) and it is very hard to believe that SMEs are owed £26.3 billion in late payments, which adversely affects their ability to grow. In literature, we find discussion about SMEs' dependence on trade credit³ (Cowton and San-Jose, 2017). Indeed, during 1983-1995 more than 80 per cent of business-to-business transactions used trade credit (Wilson and Summers, 2002). Trade credit is an expensive financing mode, but in research we find various reasons for the popularity of the same (Al-Hadi and Al-Abri, 2022). Thus, more than 25 years later, we find 20 per cent of world GDP is contributed by trade credit (Boissay et al., 2020).

The importance of trade credit in the business world remained the same during the Asian financial crisis (Love et al., 2007) and global financial crisis of 2008 (Giannetti et al., 2011). Post-recession, we observe an increase of eight per cent of trade credit received by businesses. Thus, it is evident that most of the SMEs in the UK are dependent on trade credit, which is a similar trend observed in other developed countries (Pattanaik et al., 2020). However, trade credit cannot be a sustainable solution for the SMEs in long run. In the first instance, the supplier of the credit may have credit constraints (Jacobson and von Schedvin, 2015); in addition, the effect of dependence on trade credit by SMEs becomes more prominent during recessions (Ozlü and Yalçın, 2012). The above argument gives a clear indication that late payment is definite during economic downturn. Although the existing research discusses the popularity of trade credit among businesses, there is no consensus about how the late payment practice could affect the SME performance and their stakeholders in particular, especially during economic uncertainty, for example, the Covid-19 pandemic.

In literature on the pandemic and previous financial crises, we find evidence of monetary policy mainly focused on bank credit instead of trade credit (Altunoka et al., 2020). There is limited

¹ <https://www.gov.uk/government/news/late-payment-reporting-guidance-launched-for-large-businesses>
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/831507/payment-practices-performance-reporting-requirements.pdf (accessed December 2021)

² In this paper we apply the following definition : A small company does not have a turnover of more than £6.5million, a balance sheet total of more than £3.26 million and does not have more than 50 employees (The Companies Act 2006).

³ We use trade credit and late payment simultaneously in this paper

research evidence on the joint impact of bank and trade credit during economic crisis (Nilsen, 2002). To the best of our knowledge, there is no detailed discussion in literature regarding whether late payment is ethical, even when businesses may be legally allowed to delay the invoice. To address the above gap in the literature, in this paper we ask the following question: Is it ethical to make a late payment of invoices to the SME? Because of the popularity of trade credit in the UK, we choose the UK economy to test the question and to suggest a way forward to develop an ethical awareness about the consequences of late payment to SMEs.

In the beginning of 2021, in the UK, we find 99.9 per cent of businesses are SMEs, and they contribute three-fifths of the employment in the country (Federation of Small Business). Thus, in practice, we observe a close relationship between employment, economic growth, and the growth of SMEs. The severity of the unique exogenous shock of Covid-19 is not unknown to any economy in this world: closing of businesses of different sizes, severe credit crunch, limitations in finding ‘one policy applicable to all’, a wellbeing crisis of people in the society, etc., are a few effects of the socioeconomic implication of the pandemic. For example, in Eastern Europe, on average the deferred payment remained 67.2 per cent (Zimon and Dankiewicz, 2020); and during the pandemic over 800,000 British people lost their jobs (Office for National Statistics (ONS)⁴).

In the above-mentioned reports and literature, we find only facts and figures, but no indication about how to create an ethical awareness to balance the demand and supply side of the trade credit process, which can be applied, especially during an economically uncertain period, for financially constrained SMEs. A careful consideration of the challenges and mapping them with opportunities could minimise job loss in the economy and there is a high possibility of reducing the mental pressure created by the burden of debt.

According to Money and Mental Health⁵, 2021, over 420,000 people consider taking their life because of the burden of debt. ‘Death’ within the business narrative is not a new phenomenon. For example, in 2016, Mike Cherry, the National Chairman of the Federation of Small Businesses stated “We estimate that if payments were made promptly, 50,000 business deaths

⁴ ONS, 2021 [Vacancies and jobs in the UK - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/august2021)
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/august2021> (accessed December 2021)

⁵ [Home | Money and Mental Health Policy Institute - a charity founded by Martin Lewis](#) (accessed Feb 2020)

could be avoided every year, adding £2.5 billion to the UK economy” (gov.co.uk⁶). In response to the above call by the FSB, we find very limited initiatives within academic communities and practicing firms in enhancing awareness about the serious consequences of a delay in payments to SMEs. After critically analysing the academic literature on SME late payment of invoices, we cannot find any discussion about application of any psychological models in addressing the above mentioned concern, in addition, the absence of an ethical consequence of implications of late payment to SMEs creates limited awareness in practice.

Because of limited attention in the literature about the psychological consequence of late payment of invoice, we take an action research approach to collect evidence from stakeholders of SMEs and apply content analysis to draft a feasible ethical solution for SMEs. The action research team is led by Xero – the global small business platform, and consists of professionals including psychologists, researchers, supply chain stakeholders of SMEs, creditors, customers and other small businesses.

The main findings of the study are as follows. We explain a clear life cycle of the payment of invoices to SMEs. The finding will assist SMEs to invoice promptly and accurately, and encourage them to negotiate shorter payment terms, particularly during an economically uncertain period. In addition, we find that the 2008 “Prompt Payment Code” has had little impact beyond showcasing a few businesses that have adopted such a practice – with little meaningful effect on those that don’t. Thus, as an outcome of the action research, we propose renaming “late payment” as “unapproved debt” rather than legitimising the behaviour and thus setting regular reporting requirements for said “unapproved debts”. Based on the psychological assessment model, we find that better awareness about unapproved debts should be a “stick” approach, as it yields little weight without proper penalties, and the former self-efficacy approaches are incomplete without the payor organisation’s systems set up to pay on time.

The findings of this study will extend the accounting literature on trade credit and will enrich the research on SMEs. This research gives a clear indication to the businesses about the severe adverse impact of late payment to the SMEs. We expect that this in-depth study about late

⁶ [Creating a responsible payment culture: tackling late payment - a call for evidence \(publishing.service.gov.uk\)](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/745639/creating-a-responsible-payment-culture-call-for-evidence.pdf#:~:text=Creating%20a%20responsible%20payment%20culture%20%E2%80%93%20the%20problem,sectors%20and%20firm%20sizes%2C%20trends%2C%20causes%20and%20impacts)
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/745639/creating-a-responsible-payment-culture-call-for-evidence.pdf#:~:text=Creating%20a%20responsible%20payment%20culture%20%E2%80%93%20the%20problem,sectors%20and%20firm%20sizes%2C%20trends%2C%20causes%20and%20impacts (accessed December 2021)

<https://www.gov.uk/government/news/boost-to-small-businesses-as-payment-reporting-rules-unveiled-for-large-firms>
(accessed December 2021)

payment will allow the businesses and practitioners to modify their reporting practices around unapproved debt, which will support the sustainable growth of the economy.

In the second section, we critically analyse the relevant literature followed by the methodology. In the final two sections, we summarise the findings of this research and conclude on a positive note for the academic scholars and practitioners.

2. Literature Review

One important component determining the success of an SME is the proper management of their cash flow. SMEs are heavily dependent on short-term finance and, thus, the frequency of cash conversion determines their survival to a great extent (Dodge et al., 1994). We find evidence in literature about the funding challenges for SMEs before and after financial crises (Brown and Lee, 2019). The importance of trade credit in SME financing, especially during previous financial crisis, is highlighted by scholars from time to time (Carbo-Valverde et al. 2016; Bussoli and Marino, 2018). Usually, we find some common financing patterns by SMEs in a particular country. Thus, the impact of trade credit for SME has been discussed in the context of developed and emerging countries (Briozzo and Cardone-Riportella, 2016). In most studies, however, it is evident that SMEs are not popular with banks because of their risky operational strategy, and, so, they depend more on trade credit, especially during economic downturns. SMEs in construction industry, who are more innovative and smaller compared to their peers, depend more on trade credit (Paul and Bowden, 2008; Lee et al., 2015). The importance of trade credit is highly visible in the UK market. Two decades ago, more than 80 per cent of business-to-business daily transactions took place on credit terms in the UK and this is still observed in the country (Peel et al., 2000).

Most of the above mentioned studies focus on trade credit as a short-term solution to credit crunch for SMEs during financial uncertainty. However, the limited availability of finance for SMEs during the pandemic, or indeed at all, is very difficult to map with the previous financial crises. The net trade credit is affected by Covid-19, as credit supplier and receiver both are affected simultaneously. Businesses of every size and all countries fell victim to Covid-19 contagion (Al-Hadi and Al-Abri, 2022). As the pandemic is a global phenomenon, we find researchers considering country-specific government policies to support SMEs as the way of understanding their financing possibilities (McKibbin and Fernando, 2020). Availability of Business Packages for SMEs in different countries increased the trade credit (Al-Hadi and Al-

Abri, 2022). However, the issue of late payment of invoices remains silent in most of these studies as this problem is not something new during the pandemic. Late payment has been a serious threat to SME survival for decades. A report by Wilson (2008) highlights how the failure of an SME is determined by late payment. Most of the businesses in the trade credit process play two roles, either credit receiver or credit giver. Thus, we observe a “commercial practice” of trade credit over the years, which is ‘at best amoral, and perhaps immoral (Cowton and San Jose, 2017). It is evident in the literature that, in the UK, more than 50 per cent credit sale invoices are paid on time, but with the passage of time the payment delay related to trade credit has worsened. The situation is worse during any financial shock in the market. SMEs are considered as the most vulnerable economic unit during any financial or social shock. Such evidence in the literature gives us immense scope to think about the impact of the ongoing Covid-19 on SME survival as both parties in the trade credit process are badly hit by the current pandemic.

In the early stage of the pandemic, we find regulators injecting liquidity into trade credit chains with help of a corporate bond purchase by large firms (Adelino et al., 2020). However, over time, when the Covid-19 shock started affecting the big businesses, smaller businesses needed more cushion from regulators to survive in the trade and, thus, we observed various additional or alternative measures (e.g., application of reverse factoring operation in balancing working capital, special working capital programme for SME importer, exporter) (BIS Bulletin No 24, 19 June 2020).

From the above evidence, it is hard to conclude that the late payment of trade credit is encouraged during the pandemic or if there is any change from the previous practice around the same. Late payment of invoices is a legal breach of contract and involves breaking a promise or agreement (Cowton and San Jose, 2017). In pre-pandemic literature, we find that there is no agreed benchmark to follow to determine the payment behaviour of the suppliers. In practice, most businesses want to maintain a good relationship with their clients and, thus, we observe SMEs following market orientation rather than focusing only on their entrepreneurial orientation (Dias et al., 2020). Another stream of literature finds that SMEs in trade credit chains consider crisis as an opportunity (Beliaeva et al., 2018) and they might prefer to follow the practice of late payment from big businesses. Nonetheless, late payment (unless in the case of unforeseeable circumstances, where the creditor firm must also be invited to

acknowledge ‘it’s ability and willingness to withstand delay, rather than such delay being merely presumed by the trade debtor’), especially where there is an impact on third parties – such as the supplier’s stakeholders, is considered grossly unfair by scholars working on financial ethics (Cowton and San Jose, 2017).

Indeed, other papers look at the ethics of lending, highlighting that banks, for example, screen potential debtors on the basis of being able to repay a loan (Cowton, 2002; Azmat and Ghaffar, 2021), but this is not open to the supplier wanting to form a partnership with a business, who, even to the bank’s consideration, would be seen as capable of repaying their debt in any case. Richards et al. (2008) highlight the impact of irresponsible lending, including tragic outcomes such as suicide; this applies largely to lenders where they have a choice to assess those coming to them for credit. A supplier is not in such a privileged position. However, the ethics of the business practice of late payment – taking advantage to detrimental effect of a supplier who is not in the position to behave as a money lender, is not directly discussed. The late payment is seen as a “wilful ignorance”, which is a common practice among parties involved in trade credit (Gigerenzer and Garcia-Retamero, 2017) and there is a high possibility of similar practice during the pandemic trade credit environment. Such “deliberate ignorance” might create negative emotions that may arise from foreknowledge of negative events. We find similar concern about the impact of late payment of invoices to SMEs from the practitioner and policy makers. Small Business Commissioner, Liz Barclay⁷ pointed out in 2021 that ‘Big businesses do not always realise the impact of their “normal terms” (i.e., 60/90/120/360 days payment – and often paying later) has on small businesses’ giving an example of one small business owner having nothing to feed her child because the COO of the big business had authorised a £1m payment but had thought the £300 invoice she had raised could “wait until Monday”.

At best, one might argue that big businesses are not aware of the effect of their actions on the supplier. But most of the existing evidence suggests that the late payment to SMEs is practised to gain a strategic advantage by bigger business, even in their own commercial circle. The literature on late payment in trade credit is incomplete as there is no common understanding about the psychological impact of the same on the business and their stakeholders, like other suppliers, consumers, the public in general. There is hardly any discussion in the literature about whether late payment to SMEs could be ethical – or worse *actively detrimental* - during

⁷ Barclay, L (2021), Speaking at the Xero Webinar on Late Payments, October 2021

the pandemic and beyond. It is believed that public awareness will generate both the perspective taking and empathy required for broader action (Wondra and Ellsworth, 2015), as well as serve to highlight the very real consequences to suppliers who have been placed into the unfair position of a lender to organisations that might be exploiting them for personal gain. By using Xero's⁸ data, we address the above-mentioned gap in the literature and propose a practical way to address the challenges of late payment to the SME and make a contribution to studies on ethical finance.

3. Methodology

In October 2021, the accountancy software firm Xero assembled a task force to address the issue of late payments of invoices to SMEs. The task force consists of academic researchers, accountants, journalists, small business, a representative from Xero, an accountant, and policy makers. The task force critically analysed the existing academic literature to understand if the late payment to SME is an ethical practice and what are the implications of delaying the invoice to SME stakeholders during the pandemic and beyond. As an outcome of the literature survey, the task force identified the themes associated with late payment, which are uncovered in the literature and need further attention in practice. At the next stage, the task force organised a “Round Table” discussion on the themes around late payment, which was chaired by Philip Salter (The Entrepreneurs Network). For the validation of the themes and for accurate analysis of the available information, the round table discussion was recorded. At the final stage, the task force got a chance to share their view with Liz Barclay, the Small Business Commissioner, and the general public.

With the start of the Covid-19 pandemic, the research community started facing obstacles in collecting quality data required to assess the impact of the pandemic on the economy and also on society. The traditional ways of data collection started becoming impossible because of lockdowns and other related restrictions. ‘The Digital Banking Study’ in Malaysia decided to apply the technology adoption model (TAM), to capture the behaviour of the users of mobile banking. The model has been widely used in behavioural science for decades (Venkatesh and Bala, 2008; Zhang, 2018). During the pandemic, most of the trade credit transactions (including SME's transaction) started operating online, which gives enough opportunity to apply the TAM

⁸ Xero Ltd, is an accountancy software firm used widely by SMEs and they chose to generate the task force to explore this recurrent issue with late payment of trade credit to the SME.

model for a better theoretical understanding about the behaviour of the supplier in the trade credit process. However, to capture the behaviour of the suppliers in the trade credit process towards SME, in practice, we follow the web-based seminar (webinar) and online round table discussion as a newly adopted mode of data collection, popular during the pandemic (Donthu and Gustafsson, 2020). The methodology used in this paper is well-aligned with the research initiative taken by the United Nations in their global education project (United Nations, 2020⁹), and the webinar is also used to explore how digital tools could meet the standard practice in businesses during a pandemic (Papadopoulos et al., 2020).

In summary, we follow the steps below to build the research design to collect quality data about the topic. Step 1: A task force was set up to conduct a detailed literature review and identify the themes around late payment. Step 2- the task force organised a round table discussion to check the validity of the themes collected from the late payment research. Step 3- the task force shared the preliminary findings from the literature with the SME commissioner, businesses and other relevant stakeholders. Step 4- TAM model was used to organise the data. Step 5- online round table and webinar were used to capture the behaviour of the supplier. Step 6- finally we conducted action research and content analysis to analyse the collected data.

4. Analysis

The research question-related qualitative information is analysed following the Content Analysis and Action Research approach in this paper. In this section, we summarise the findings of the analysis.

4.1 Content analysis

The content analysis is a popular method followed in the social sciences. However, in earlier days content analysis was applied for a systematic and quantitative description of content (Berelson, 1952, p.55). In later periods, researchers found that the content analysis tool had extra potentiality in efficiently interpreting the underlying meaning of the qualitative data (Duriiau et al., 2007). After carefully analysing the four steps proposed by Mayring (2000), we

⁹ United Nations. (2020). Policy Brief: Education during COVID-19 and beyond. In United Nations. https://www.un.org/development/desa/dspd/wpcontent/uploads/sites/22/2020/08/sg_policy_brief_covid-19_and_education_august_2020.pdf

decided to adopt content analysis as the most suitable approach in identifying the following themes for further discussion related to the ethical aspect of late payment of invoices to SME during the pandemic and at other times.

4.1.1 Reasons for late payment on invoices to SME

i) Size of business

One main motivation for late payment by any business is to preserve cash for the future. The trade credit process is balanced and run efficiently when both supplier and customers exercise their power appropriately. However, in practice, businesses tend to want to take competitive advantage in the market. To become oligopolist or monopolist, businesses will need time to understand the customer concentration and will need money to adopt recent technologies in payment (Paul and Boden, 2011). The above activities are mainly the privilege of large businesses and, thus, we observe delay in payment by the big business compared to the SMEs. In addition, when the credit score is poorly used then there is a high default risk attached with the business, which is common in SMEs. In such situation, there is a possibility of late payment as the assessment of default possibility is a time-consuming process and very often the supplier prefers to make part payment because of the risky operation of the clients (Paul and Wilson, 2006). During financial crises, we observe a positive relationship between late payment and credit crunch (Wilson, 2008, pp. 7-8) and the small businesses suffer worst in economic uncertainty. For example, the European Commission (Europa, 2009) reports that ‘SMEs are owed twice as much trade credit as they themselves owe to large businesses’. Thus, we expect, that, during the pandemic, we could observe a tendency of late payment by suppliers in trade credit and the impact could be more prominent for the SMEs. In the UK, it is legally allowed to delay the payment and, thus, we find research focused on the SME and trade credit in the UK. But, in the pre-pandemic literature, there is no benchmark to determine if the late payment is ethical (Dias et al., 2020). Because of the severe psychological burden of late payment on SMEs (Richards et al., 2008), it is important to extend the trade credit literature by considering the ethical aspect of late payment during a pandemic.

ii) Process efficiency

The bargaining power plays an important role in determining the terms and conditions of the trade credit (Fabbri and Klapper, 2016). However, the bargaining is only meaningful when there is a clear understanding by the members of the SME about the need for the trade credit (Tsurutaa, and Uchida, 2019). The real drivers of trade credit contribute towards a sustainable growth of firms (Huang et al., 2019). In literature, we find mainly four motives that allow an SME to look for trade credit. These motives are: financial stability, competitive advantage, reduction of transaction costs and controlling the quality of goods (Zimon and Dankiewicz, 2020).

However, determining the explicit motive is a challenging task for SMEs as they have limited manpower with required skills and financial resources to recruit more people and apply advanced technology. Credit taking is considered ethical by SMEs but they are not aware of how their contribution towards the trade credit determining process could motivate the supplier to delay the payment process. The efficient trade credit management by SMEs will determine the interest of their stakeholders in their business and will also attract the investors (Paul et al., 2012).

In literature, we find variation in the credit period for different countries. For example, in Asian countries mostly the credit periods are longer compared to European countries, mainly because of clarity and transparency in the trading process (Ge and Qui, 2007).

In addition, there are a number of potential inefficiencies within the payments teams and in the processes of invoice processing. For example, invoices being lost, incorrectly issued invoices not being queried, or simply the payment “falling out” of the process due to having to pass through a number of channels, etc. Further, a 2016 government response considered the “start the clock point” for the payment of an invoice to run from the date of receipt of invoice rather than the date of invoice (although not without enough significant dissent leading them to state ‘There were many different responses about what should be the suitable starting point, but more respondents were against using date of invoice than were in favour’ (Duty to Report on Payment Practices and Performance: government response, 2016¹⁰). Unfortunately, in practice, this can sometimes mean that, if the person who handles the invoices is absent, invoices can be overlooked, thus delaying the start OF the clock point indefinitely. Such delay in the payment process could be one major player during the economic downturn. However,

¹⁰ [Duty to report on payment practices and performance: guidance to reporting on payment practices and performance \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/544441/duty-to-report-on-payment-practices-and-performance-guidance-to-reporting-on-payment-practices-and-performance.pdf)

the findings from the existing literature are very hard to apply during the pandemic. According to the *Guardian* report¹¹, SMEs are asked to pay their dues to big companies on time even during pandemic, but they themselves are suffering from late payment. Thus, the question remains the same: Is it ethical to make a late payment to SMEs?

iii) Legal requirement

In literature, we find that the state level risk plays an important role in determining the late payment. For example, Cantero Sáiz et al. (2017) found that, with the increase in public debt, the popularity of trade credit decreases. There is a possibility that some of the businesses will take an initiative to maintain their reputation and will be interested to pay the dues in a short time during financial downturns. To forecast the delay in payment, it is essential to consider the economic growth indicators along with the change in monetary policies (Zimon and Dankiewicz, 2020).

4.2 Action research:

The action force critically analysed the above literature and the themes related to late payment are summarised in the following section along with the possible solution. In the following sections the other actions taken by the action force committee is mentioned in detail, which helped us to strengthen our recommendation.

4.2.1 Key themes related to a late-payment developed by Xero Ltd

There is a power imbalance between the small and large business, in favour of the latter

Although the government response to the duty to report acknowledges there is a need for reporting, it also seems to favour the large business despite the premise that a small business has choice being questionable: ‘Allowing different “start the clock” points for different sectors or different products could prevent suppliers from making evidence based decisions on which companies to do business with (based on their payment performance). It would also prevent a clear comparison of the performance of different companies (or sectors)’ (Duty to Report on Payment Practices and Performance: government response, 2016). While it is possible for a

¹¹ (<https://www.theguardian.com/business/2022/jan/03/uks-late-payment-crisis-risks-future-of-440000-small-firms>)

small business to negotiate standard 30 day terms, many do not for fear of losing the contract (Schizas, 2015).

Current accelerants and threats are ineffective to motivate prompt payment

While accelerants which can encourage invoice payment can include legal threats, again this may be seen a destructive to the relationship by the small business and could result in further financial cost (Schizas, 2015b). Another accelerant is for the payor business to sign up to the “2008 Prompt Payment Code” which sets a maximum payment rate at 60 days (which is still a long time for a small business or contractor), and it is also a regulatory requirement for all businesses with over 250 employees or an annual turnover of more than £36m to report their payment practices on the government website, pursuant to the “Guidance for reporting payments and performance” document (2019); however, a Government consultation in 2018 found that larger firms place little importance on late payments.

Small businesses may also be supported by using personalised messages with their invoice, or through automated invoice programmes which include a “pay now” button, but the problem here can also be that any messages or initial communications are not read by the team or process responsible for the physical act of making payment.

The 2019 pandemic brought short-term improvements

In March 2020, Morrisons announced that it would be making faster payment times to support smaller suppliers with the aim of releasing payment within 48 hours (Morrisons Corporate News, 2020¹²). In July, Tesco (who had previously been under investigation in 2015 for

¹² Morrisons Corporate News (2020) [MORRISONS TO MAKE IMMEDIATE PAYMENTS TO HELP SMALL SUPPLIERS WITH CASHFLOW \(morrisons-corporate.com\) https://www.morrisons-corporate.com/media-centre/corporate-news/morrisons-to-make-immediate-payments-to-help-small-suppliers-with-cashflow2/\(accessed December 2021\)](https://www.morrisons-corporate.com/media-centre/corporate-news/morrisons-to-make-immediate-payments-to-help-small-suppliers-with-cashflow2/)

overstating profits enabled by late payments (*Financial Times*, 2016)) followed suit, but stated that its terms would last until January 2021 (*The Grocer*, 2021¹³).

However, it is possible that, in the first instance the behaviour of the national supermarkets may have been driven by the potential for good publicity, because it would seem that, as the economy begins to revive, these practices – which could perhaps be called – “concessions” rather than “change” will also end.

It was felt while there is still a lack of meaningful incentive for prompt payment, nothing will change

While the above solutions can offer opportunities for increased mechanical efficiency and accuracy, three key areas are not addressed:

- A lack of real and meaningful incentive for firms to pay suppliers on time
- The perceived and real position of the supplier or contractor as “needing” the contract more than the contracting organisation needs their goods or services
- A lack of awareness of government interventions, and good practice – as something to be celebrated, recognised – and potentially influential in the minds of the customer or clients of the contracting organisations.

It is these elements that the remainder of this paper will address along with offering possible interventions that may work on a human level.

4.2.2 Possible solutions - *Exploiting the opportunities for intervention: The Life Cycle of an Invoice*

Accountancy firm, Xero has identified the “life cycle of an invoice” outlining the four stages an invoice will pass through – as well as the potential delays or accelerants at each stage: Table 1 explains the details of the life cycle

¹³ The Grocer (2021) [Tesco to extend improved payment terms for smaller suppliers into 2021 | News | The Grocer](https://www.thegrocer.co.uk/supply-chain/tesco-to-extend-improved-payment-terms-for-smaller-suppliers-into-2021/646970.article)
<https://www.thegrocer.co.uk/supply-chain/tesco-to-extend-improved-payment-terms-for-smaller-suppliers-into-2021/646970.article> (accessed December 2021)

Table 1: Life cycle of an invoice for SMEs

Stage	Description	process	Potential delays	Possible accelerants
1	Work must be agreed and completed. Invoice may or may not require purchase order generation in advance	Work must be agreed and completed. Invoice may or may not require purchase order generation in advance	Unsatisfactory work. Delays with the purchase order	Effective and Efficient PO process. Clarity surrounding work required
2	Invoice is sent to the payments person/team	Invoice must be approved by the client. Invoice to be added to the payment system. Invoice matched against a PO where applicable	Invoice not correctly set out. Invoice does not match PO. Invoice not forwarded/gets lost within internal system	Internal efficiency. Training for the person generating the invoice. Broader awareness of work completed so original client is not the only person with approval rights
3	Invoice is released for payment	Payment made within paying organisation's standard terms. Payment made according to paying	"Prudential" cash flow policy	Management desire for good practice. Legal threats. Voluntary best practice.

		organisation's business practices		Regulatory best practice. Reporting requirements
4	Payment is made	Payment made subject to paying organisations' payment cycle	Irregular payment cycle	Streamlined internal processes

(Xero, 2021)

Xero's 2021 report goes on to outline the possible solutions pertaining to intervention within the "Life Cycle" stages:

- Helping smaller firms negotiate better terms
- "Nudging" big business into faster payment through:
 - o Threats of legal action
 - o Recognition of the importance of treating small businesses fairly
 - o Influencing the business decision-makers to adopt a policy of good practice
 - o Government intervention (additional to the Prompt Payment Code)
 - o Overtly treating suppliers fairly through stronger public scrutiny (e.g., making suppliers aware of the requirement to report payment performance and processes which some businesses are subject to)
- "Building in" efficiency tools for small business:
 - o The inclusion of a "pay now" button on an invoice accurately generated via accounting software such as Xero or PayPal
 - o The ability to send an automatically generated "reminder letter"

ii) Other motivating factors towards prompt payment

While it would be impossible and inappropriate to lay all the blame for debt at the door of late payments, it is certainly viable that late payments were a contributory factor. As such late payment culture – or calling it what it is, “unapproved debt” – must be called to account.

It is not enough that firms have to report their payment processes and the information is “publicly visible”, but a more active stance to publicising such information could be taken. Here it may be possible to engage the vigour of “cancel culture” to “name and shame” companies whose terms, and eventual payment times, are unacceptable and unfathomable to the continuation of small businesses.

While not taking a “stick” approach alone, perhaps the government can offer carrot incentives to the businesses who have signed up to the “Prompt Payment Code” as well as celebrating their behaviours at a national level. At the very least, a “mark” of good practice that businesses who sign up to it may display; along with a clear list of the signatories that have been struck off the list. Unfortunately, at the time of writing, even the Prompt Payment Code website is generating a 404 Error message!

Further, small businesses themselves can learn from “class action movements” so as not to feel vulnerable in standing up to larger firms alone. The power of electronic word of mouth (EWoM) cannot be underestimated, and use of a catchy hashtag when naming and shaming late payers may generate a larger number of people coming forward. Word of mouth has long been a powerful tool to promote trust and loyalty, and, because of its reach, EWoM has even greater strength (Ismagilova, 2020¹⁴). Not only do organisations all need an online presence, but that in itself enables people to reach them and express their views – positive or otherwise.

Reports and discussions such as events such as the Xero Round Table can be made public, along with personal case stories of late payments and the effect on the individual, and, at the same time, perhaps a “People’s Choice” award for Prompt Payment in Practice can be offered to celebrate those businesses with an ethical payment culture.

¹⁴ Ismagilova E (2020) *Electronic Word of Mouth* Conference presentation, Dubai 2020

4.3: Themes from the Xero “Round Table” discussion

On 28th September, 2021, Xero hosted a “Round Table” discussion to generate workable solutions to improve prompt payment of invoices. The task force comprised:

- Dr Veronika Koller – Professor of Discourse Studies
- Kara Curtayne FICB MAAT – Director at Karaccounts Ltd
- Dr Alexandra Dobra-Kiel – Banking and Capital Markets Insight Lead
- Gary Turner – MD at Xero
- Pritesh Mody – Founder of World of Zing
- Simon Read – Journalist and Author

and Dr Audrey Tang (Psychologist), one of the co-authors of this paper.

The 4-hour round table discussion was chaired by Philip Salter (The Entrepreneurs Network) and recorded for the purposes of accuracy, and each of the themes outlined the many possible solutions to addressing the issue of late payments and encouraging promptness in remuneration for service, centred around the four areas identified as most pressing to tackle.

Theme 1: It is unethical for a small business to “prop up” a large business

Proposed Solutions:

This is effectively what a small business is doing when “late payments” are part of the “Prudential cash flow management”.

- The word “prudential” could be replaced with “fairness” in order to reframe the practice with the former focused on the self, the latter focused on both parties (the large business *and* the small).
- 90-day terms which have, in practice, been extended later have been a subject of discussion for many years, but have not yet reached the point of change in law.
- It was proposed at the phrase “unaccounted debt” is used in place of late payments.
- It was proposed that campaigns to set down in law “30 day payment terms” (at least for small businesses) reach government level – as this will enable the small business real recourse protected by law for late payments.
- It was considered that because the impact of late payments is so detrimental to a small business (negative effect on mental health; closure or business; a catalyst for the need to take a loan) payment terms along with a link to reporting of payments made (e.g., to the Prompt Payment Code whose data link, it is noted, is still showing an error message

at the time of writing) so that the actual behaviour of the organisation is made clear to the small business supplier.

- It was considered that job seekers be encouraged to ask about the payment terms for suppliers in job interviews as this can give insight into what actual behaviours may be being deemed “acceptable” within the company...it is noted that in discussion it was raised that one big company sets a KPI target as “how late can you pay the supplier”!
- It was suggested that “Prompt payment of suppliers” is listed on a “Glass door” type questionnaire so that it is simply commonplace for people to complete.
- It was noted that the “Small Business Campaign” publishes a league table of companies (of a certain size) whose payment terms and behaviours are unfair.
- It was suggested that public – notably consumer – awareness of the impact of late payments on small business be raised in the form of a campaign or an infographic.

Theme 2: Emphasis to be placed on the reputational benefit of #goodbusinesspays

Proposed Solutions:

- With a “cancel culture” approach potentially having repercussions for the small business (e.g., if people don’t shop at a supermarket who treats suppliers unfairly – the supplier themselves loses a contract), it was suggested that some form of government “mark” (like the “Fairtrade” mark) is given to businesses that pay promptly. This could be further developed into a gold/silver/bronze standard.
- Related to the above, the league tables published could be flipped to celebrate prompt payment with the potential for an award in order to raise the profile of an extremely significant issue (with very real repercussions when it is overlooked).
- Educating all businesses, and the public, on the negative impact of late payments was also suggested.

Theme 3: Acceleration of digital adoption

Proposed Solutions:

- It was discussed that many countries, such as Norway and Singapore, have adopted digital invoicing, and the UK government is also moving towards this approach. Digital adoption with the ability to form template invoices, template reminders and the option of adding a “pay now” button so the invoice can be paid immediately may remove the

worry from small businesses that the “Invoice style” is incorrect or Purchase Order numbers have been left off. However it was strongly emphasised that, as with all automation, there also needs to be a human trouble-shooter to deal directly with any issues raised.

- Related to the above, it was also suggested that the notification that an invoice is viewed can also come with a template where the organisation can outline their payment process, e.g., “Your invoice has been viewed, it will now be passed to x and payment will be made by y unless there are any issues, in which case you will be contacted by z” (as a very rough example).
- For the small business, once the payment has been made, an automatic “thank you/receipt” could be sent out.
- Not only would a digital process of invoicing help a small business, but it would also mean that the very small businesses (e.g., the person who started baking cakes because they liked it and wants to be creative – but is overwhelmed by the administrative processes) have an easy way of managing their administration. This would also help their accountants should they employ one. It was noted that sometimes very small businesses in particular, in practice, are “terrified” of keeping accounts and as such will not even want to chase payments – if they have realised they are overdue.
- It was also discussed that templates of standard letters – worded in an assertive manner – may be of use as part of a “start-up accountancy package”.
- **The Start-Up Package:** this was proposed as a digital template that could be offered to small businesses (perhaps from the bank if they approve a loan, or from accountants should they be engaged) which includes all the information that they need in terms of invoicing and generating payments. It would also include an opportunity to calculate (using their figures) a very basic forecast. This will help in both recognising the feasibility of the business practice before money is spent, as well as give the small business a real understanding of possible directions to take, e.g., do they *really* need to work with a supermarket chain, and can they afford to IF the payment is made late – and so on.

Theme 4: Raising awareness of the issue

Proposed Solutions:

- The effect of late payments on small businesses can be so detrimental there is a need for it to come to the fore of public awareness.
- “Support local” was a wonderful campaign during the pandemic, and a similar “good business pays” campaign may also go some way to raising awareness.
- Hearing real stories that can connect with the public to humanise both the behaviour of the large business, and place a real face to the small business – which often really is all a small business is (one face trying to deal with a corporation) – may also help give the issue the gravitas it needs for social change.

This discussion was **further condensed into feedback panel exploring the following points in depth:**

1. Reframing late payments as “unapproved debt”
2. Building more transparency into regulation and reporting
3. Redefining “great workplaces” to include measurement of how suppliers are treated
4. Corporate reputation and publicity as a sanction
5. Underpin legislation with a “Fair Buyers Act” – setting 30 days minimum payment terms for big firms paying small businesses
6. Sourcing better education to form best practice – in part funded by HMRC – to give small businesses a basic understanding of the financial know-how to invoice, negotiate payment terms and chase payment.

(Panel Discussion Briefing document, Xero, 2021)

4.4 Exploration of the themes within a public webinar and panel discussion

The panel included Liz Barclay, Small Business Commissioner, and took place in a public forum on 7th October, 2021, where the audience could also contribute to the discussion.

Each of the above briefing elements were discussed from the expert view of the panel (and the public webinar recorded), and Liz Barclay’s summary pointed out:

- While there are processes to expedite payments:
 - Small businesses need to be supported in understanding the business administration - perhaps this is where accounting technology can come in offering a “start-up pack” to small businesses to:
 - Construct invoices

- Offer a template for reminder letters
 - Offer a template for “due date” nudges
 - Offer a template for chasing payments
 - Enable “click here” payments
 - On receipt of the payment being made, sending an automatic thank you acknowledgment
- Rather than “educate” small businesses, Barclay felt that the term “Create confidence businesses” was more effective and appropriate because “educate” can be negatively charged for many people who have started a small business.
 - Barclay also added that, while there is technology, what is available to small businesses is not “fit for purpose”. A small business does not want to pursue a late payment and charge interest because of fear of losing further work – AND not always being aware of the processes. Barclay suggested that there would be scope for a technology company to streamline what is on offer so that a small business owner who is worrying about their finances in the middle of the night can access a central database with all forms, answers – as well as personal *support* – to find the answers being sought.
 - It was asked that, given the nature of how unfair a payment cycle of 60/90/120/360 days can be on a small business, and how often this is overlooked in the contract a small business signs rendering their request for payment in 30 days powerless, is there recourse with “unfair contract terms” while any change in the law for small businesses to be paid in 30 days might be decided upon? Barclay added a warning that while a “Fair Payment Act” can be considered, it can take a long time for this to become law.

5. Discussion

It would thus appear that there is movement needed on both the side of the big business, the small business but also the government in order to fully address the issue:

- Small businesses can be better supported in becoming confident in their practice. Perhaps through the aid of technology in terms of negotiating their terms, as well as formatting, sending and chasing invoices. Perhaps training could be offered by the HMRC, who bears the brunt of small businesses being unable to survive, and perhaps

this can be a consideration for accounting software creators to offer a start-up package, and then for accountants and banks to promote that initiative.

- The opportunity for academic institutions to include “the payment process” as part of their modules, and perhaps offer this as an outreach or community course is also evident.
- Big businesses must recognise the impact their terms have on the real lives of the small (or even micro business). This can be done by:
 - promoting and celebrating businesses that pay on time thus creating a “win win” situation where a big business that pays on time is one that people understand as showing a high level of CSR, as well as
 - enforcing the reporting process for payments – and making it clear as to where this information can be accessed for suppliers
 - calling late payment “unapproved debt”
 - including payment process/treatment of suppliers as an area for a company to be reviewed on informally as part of a “Glassdoor” rating, as well as formally as part of their sustainability or CSR reporting...and potential employees are to be encouraged to ask about their payment processes for suppliers as an indicator of the ethical thinking of the business
 - raising further awareness of the problem through public events, media and papers such as this
- The government must take the effect of late payments seriously, if not on the individual small business, then as part of the economic growth strategy. If this means a “Fair Payment Act” (which can then enable an automatic process of chasing late payments and enforcing the law to be designed – in the same way as it is now possible to file claims for possession of property online if a tenant has breached certain regulations) then so be it...in the interim, perhaps the earlier suggestions can go some way to making what is there a better fit for purpose.

Of course this paper is not without its limitations – although the experts come from diverse fields, they are bound by their own experiences, and the people who attended the public webinar were perhaps those already interested in, or affected by the topic.

Many of the recommendations require a wider outreach than the current task force can do alone, and so change may require a much broader collaboration between many organisations to:

- Create the technology for small businesses and require accountant and banks, and perhaps even Business Schools/Entrepreneurship networks to promote it
- Create a central support database – and potentially have a person there to offer help as needed (like an NHS111 for financial help)
- Celebrate and reward big businesses that pay promptly
- Raise public awareness of the issue through academia, the media, and in all fields of business
- Include the “payment process” and how to manage it as part of Business School courses – as well as an option to reflect on the ethics of the impact of late payments on a small business and the economy. Then potentially develop this into a community outreach course.
- Lobby the government towards the “Fair Payment Act”

But it is certainly hoped that using the above as a blueprint, it is no longer a case of “what can we do?” but “when can I start?”

It is also hoped that immediate feasibility studies of the suggested changes take place following this paper with view to implementation and intervention, and certainly that research can be conducted within big businesses to examine their payment processes and how to improve, and the wider recommendations in this paper followed up in the form of a longitudinal study.

6. Next Steps and Recommendations

Based on the outcome of the content analysis and action research, we recommend that a good starting place would be taking an ethical approach to answer our research question. It is noted that, during the pandemic, new provisions were given and late-payment behaviour greatly improved, and so our focus is on conserving prompt payment in the absence of both financial packages and global crisis.

The proposed model for addressing the issue consists of three components - Awareness, Responsibility and Action. This ARA model has the potentiality of addressing the concerns related to size, process and legal requirements for responsible payment to SMEs.

Awareness

The “AIDA” model (Priyanka, 2013) often used in business may prove illuminating. AIDA stands for:

Awareness

Interest

Desire

Action

Each step is explored by marketing professionals to best promote or launch a product. It is particularly pertinent in this case because, unlike using a model of empathy for a foundation – AIDA does not often require the consumer to have a predisposition towards the subject it needs to be aware of. (Within empathy, often these are models of a desire to be aware).

Awareness is the most basic area and many of the suggestions from the Round Table may be of use:

- Publication of more journal articles on the topic of late payments stimulating further research in the field
- Publication of personal experiences of “business deaths”
- Awards, rewards and sanctions implemented at a governmental level in the area of prompt payment
- Review sites such as “Glass door” including a rating for “treatment of suppliers”
- Inclusion of the topic on business and accountancy courses
- It is noted that, in the Covid-19 pandemic, awareness was raised of the plight of SMEs because all businesses were affected and in many ways, the “normal rules” did not appear to apply.

In turn, this is likely to generate interest and desire to take action and then action can take place in practice, e.g., SME suppliers being paid promptly.

However, it is in “Desire” that ethics has the greatest role to play because of the requirement of an emotional connection with the issue at hand – in this case prompt payments. This is where we are guided by research into motivation.

Motivation is only needed when something is not personally meaningful

While technical issues with the construction of invoices, and greater efficiency with internal processes can all be addressed through technology or training, there is still a lack of incentive (whether through reward or punishment) for large businesses to change their “Prudential” approach to making payments.

Motivation can be divided into four main styles (Ryan and Deci, 2000)

EXTRINSIC – External drive, e.g., money

INTRINSIC – Personal desire

INTROJECTED – Avoidance of guilt

IDENTIFIED – *Needs* to be done sometime. The motivation depends on three key things when it comes to societal issues:

Awareness

Responsibility

Action

In other words:

- Awareness that you are in some way a part of the problem
- Knowledge of options to fix it
- Said options being easy to implement, or at the very least not detrimental to the perceived comfort of the person taking action

Then:

- Apply the principles of “encouraging greater good” behaviour: Know you are part of the cause of the issue; Know that a “fix” (especially a small one) is possible; Know that your “fix” is easy (and not detrimental to you)

(Environment.co.za., 2018¹⁵)

To date there is no real incentive for large businesses to change their practices – they are neither punished for making late payments, nor rewarded for early ones (save being included within the “prompt payment code” list, which is not necessarily widely known.

This is where it may be possible to learn from the effective highlighting of ethical practice generated by companies taking an eco-friendly approach to business. According to a 2015 Nielsen survey (Nielsen, 2015), 73 per cent of Millennials will pay more for products, which demonstrates a commitment to sustainability, and academic research has demonstrated that sustainability can also yield huge financial advantages. Businesses who demonstrate environmentally sustainable behaviours such as reduced waste, clean living and “green” business practices generate a positive public response when it comes to recruitment and retention (smallbusinesschron.com, 2020¹⁶). Current societal trends recognise “green” organisations are a draw for the ever more eco-friendly work force (Atikunde, 2015) as well as increases in customer spend.

As such, if the companies who *have already adopted* the ethical practice of making immediate, early or at least timely payments, *and* the small businesses, *along with* the government were to generate wider public interest and awareness of the ethical and economic importance of payments being made in a timely fashion as a matter of course, this may impact on the decisions of the customer or clients of the larger businesses, which in turn will influence their business practice.

¹⁵ Environment.co.za Website <https://www.environment.co.za/environmental-issues/how-to-successfully-motivate-people-to-care-about-the-earth.html> (accessed Nov 2019)

¹⁶ smallbusinesschron.com, Website <https://smallbusinesschron.com/businesses-should-green-766.html> (accessed May 2020)

Responsibility

When a big business becomes aware not just of the impact of late payments on SMEs, *but also the potential impact on its own turnover*, it is more likely that those working within it will take effective action.

Again, it is important for big businesses to recognise that:

- a) They are part of the problem...and thus part of the solution
- b) The solution is a simple one – pay SME suppliers within 30 days.

If the large business does not have the means to be able to do this – this becomes a very real issue for the sustainability of their own business, and it would, in turn, be prudent to encourage the SME to raise a claim for “withholding wages” – and, thus, must be better furnished with the procedure and the support available.

While this may prove a sticking point with the SME who wishes to maintain a positive relationship with a large company – the SME must still be encouraged to consider the solvency of said company as well as whether their behaviour is acceptable.

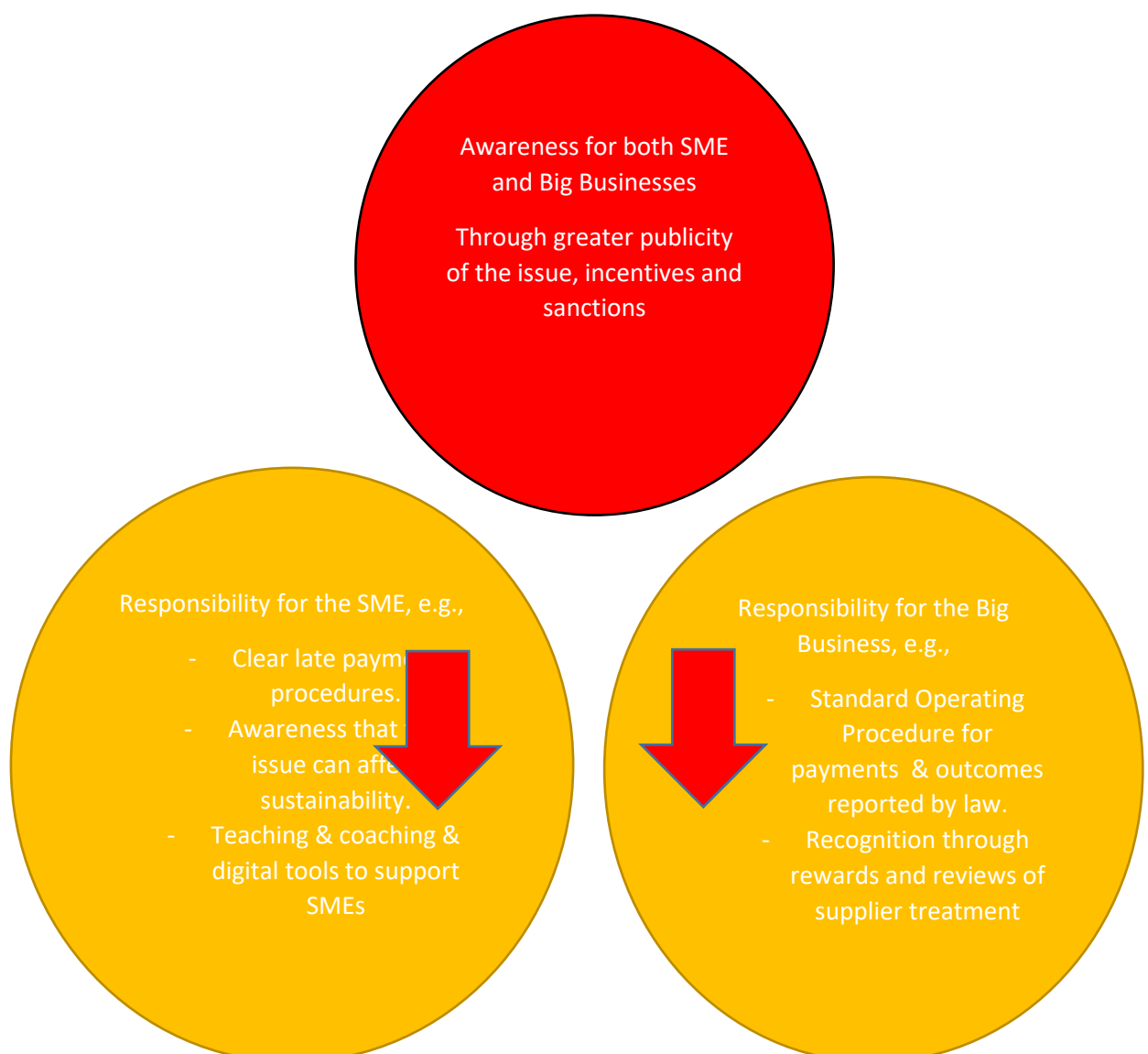
At this point, it becomes important to offer small businesses, not just the tools to chase payments as well as a clear procedure should their efforts fail – but also support to build the confidence in doing so.

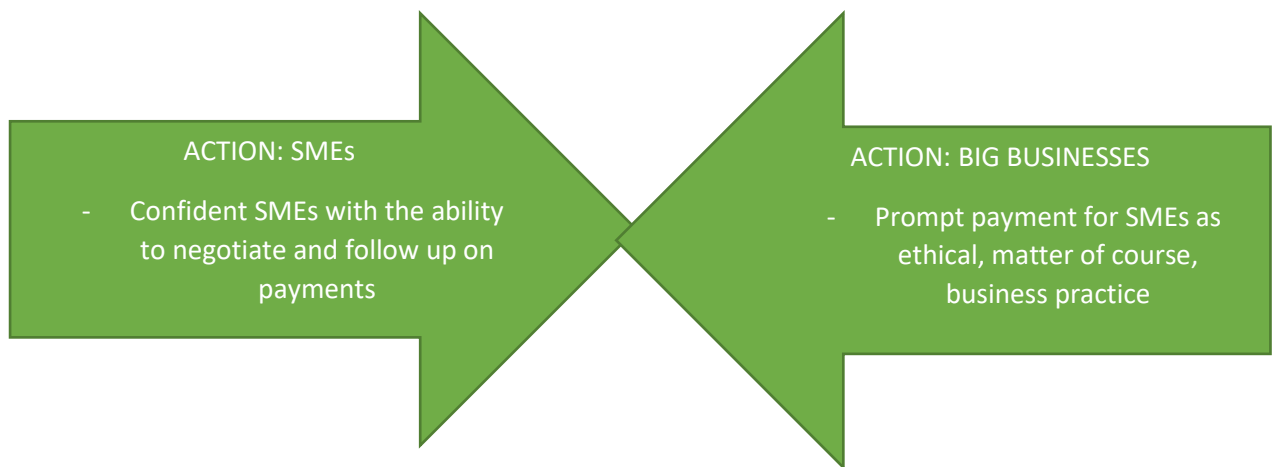
Action

Action is also dependant on both the large business and the SME – the former to pay on time, the latter to know what options to proceed are available and having the confidence to take them. It is notable that many SMEs are micro-businesses run by people who do not have the business acumen nor perhaps desire for growth to separate their personal and business bank accounts let alone pursue a big business for the payment of a £100 invoice...despite the value of that £100 being much greater to the SME than the debtor business.

This is where digital tools can help both SME and big business – the former in having an easy to format invoice and reminder templates also providing helpful evidence should a claim be escalated, and the latter in refining its processes for SMEs so that invoices are processed expediently without issue or loss.

As such, one may see the ARA model with regard to late payments looks as follows:





Source: developed by the authors

7. Conclusion

Paying what you owe in a timely manner seems the most obvious thing in the world. One would not expect to go into a shop, use the goods and pay only after a year (unless such terms were negotiated), and yet this is what the large business is doing to its much smaller counterpart.

It is not right that the small business is the creditor to the large one, even banks are reluctant to lend to SMEs, and yet the SME is expected, through so called “prudent” business practice, to prop up the large business.

It is not simply a change in practice that is needed, but a change in the culture.

Unfortunately, this may not be easy without meaningful incentive. For large businesses, it is profit – and, as such, using ethical practice as leverage may prove successful; for individuals and small businesses it will be ease of taking a courageous stance. In both cases, the government can do more than provide a code of practice, it can – along with the companies with an ethical payment culture, and the small businesses who appreciate it, celebrate those – loudly – who are working positively to make changes that benefit not just business

economically, but overall in terms of their wellbeing and longevity. The intervention requires collaboration and change from individual, organisation and systemically – but we have at least provided a starting point.

We expect the findings and evidence presented in this research will influence the businesses' payment culture and will help the regulators to find ways of setting up a code of practice for timely payment , especially to the SME to observe a sustainable economic growth of the country.