UNIVERSITY OF CAPE COAST

FINANCIAL MANAGEMENT PRACTICES AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN THE SEKONDI-TAKORADI METROPOLIS

BY

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Thesis Submitted to the Department Of Accounting and Finance of the College of Humanities and Legal Studies, University of Cape Coast in partial fulfilment of the requirements for award of Master of Commerce Degree in Finance

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DECLARATION

Candidate's Declaration

I hereby declare that this thesis is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature……….......................... Date: ...……….............

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Supervisors' Declaration

We hereby declare that the preparation and presentation of the thesis was supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

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ABSTRACT

Proper financial management is essential for business survival because firm's inability to identify and implement relevant financial management practices can affect its performance. This study examines financial management practices and their relationship with performance of small and medium enterprises (SMEs) in the Sekondi-Takoradi Metropolis. The financial management practices covered financial records keeping, asset management, receivables management, cash management, inventory management and payables management. A sample of 147 SMEs made up of 133 small firms and 14 medium enterprises were used. Multiple linear regression analysis model was used to test the relationship between financial management practices and SMEs performance. The results show that receivable management, cash management, inventory management and asset management practices influence SMEs performance. Firm's age has a moderating effect on the association between financial management practice and SMEs performance. It is recommended that SMEs should incorporate good financial management practices such as credit management, cash management, inventory management and asset management in their operations.

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KEY WORDS

Asset management

Financial management (FM)

Financial performance

Records keeping practices

Small and Medium Enterprises (SMEs)

Working capital management

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DEDICATION

To my parents, my lovely wife-Maame Afia Adutwumwaa and all my siblings.

.

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ABBREVIATIONS/ACRONYMS

AfDB	African Development Bank
AGI	Association of Ghana Industries
AM	Asset Management
APM	Account Payable Management
ARM	Account Receivable Management
CM	Cash Management
EIB	European Investment Bank
FM	Financial Management
FMP	Financial Management Practices
FRK	Financial Records Keeping
GDP	Gross Domestic Product
GSS	Ghana Statistical Service
GTZ	German Technical Cooperation
IIA	Invest In Africa
ILO	International Labour Organization
IM	Inventory Management
KDI	Korea Development Institute
NBSSI	National Board for Small Scale Industries
SMEs	Small and Medium Enterprises
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

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CHAPTER ONE

INTRODUCTION

Background to the Study

Financial management is one of several functional areas of management which plays pivotal role in the success of any small business (Agyei-Mensah, 2010). Financial management is concerned with raising the needed funds to finance the firm's assets and activities, effective allocation of funds between competing uses, and ensuring that the funds are used effectively and efficiently in order to accomplish the desired goal of the business (McMahon, Holmes, Hutchinson, & Forsaith (2008). Suraz (2011) explains that financial management is concerned with all areas of management involving not only the sources and uses of finance in the enterprise but also the financial implications of investment, production, marketing or personnel decisions and the total performance of the enterprise.

The success or failure of small and medium enterprises (SMEs) is contingent on their financial viability and one of the most common problems facing such firms is their ability to secure sufficient cash flow and working capital to remain profitable. It was noted as one of the top problems facing SMEs as long ago as the Bolton Report in the early 1970s (Bolton, 1971). This has been a recurring theme in the small business literature since that time (Boachie-Mensah & Marfo-Yiadom, 2005; Tennent and Gibson, 2006; Abor & Quartey, 2010; Sensis, 2014; Frimpong, 2014). SMEs also lack the financial management and accounting systems available to large firms, as well as the professional staff who manage such systems. Typically the

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owner-manager is required to perform these tasks, often, but not always, with support from a bookkeeper and an accountant. This is a pattern found throughout the world, both within the advanced economies that comprise the Organisation for Economic Co-operation and Development (OECD) group of nations, and the developing economies, including Ghana (OECD, 2012; Amoako, 2013). Whilst all firms can encounter problems of financial management the challenges facing SMEs are more significant due to their small size and vulnerability to fluctuations in cash flow (Frimpong, 2014).

Research has shown a positive relationship between the efficient management of cash flow and working capital, and the firm's profitability (Yazdanfar and Ohman, 2014). The more efficiently a firm manages its finance the more it can boost its profitability. This emphasizes speeding up the recovery of accounts receivable while carefully managing inventory turnover (Enqvist, Graham and Nikkinen, 2014). The owner-manager needs to ensure that they monitor their accounts payable and accounts receivable closely. However, the amount of liquidity an SME requires may depend on its age, size, industry, availability of owner-manager's collateral, and whether it has access to bank overdraft facilities (Tauringana & Afrifa, 2013). Small and Medium Enterprises (SMEs) contribute greatly to the economies of all countries, regardless of their level of development. They account for a large share of new jobs (Tambunan, 2009), stimulate growth, create social cohesion (Siaw, 2014), generate income and are known as a primary driver for Gross Domestic Product (GDP) growth in most countries (Frimpong, 2013; PWC, 2013).

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In Ghana, SMEs play a very significant role in human resource development for businesses. They are acknowledged as 'the bulwark of creating jobs and mobilizing the informal sector' (Ghana Budget Statement, 2014). Abor and Quartey (2010) and Amoako, (2012) argue that, SMEs contribute about 70 per cent to GDP and account for about 92 per cent of businesses in Ghana. Also, 75 per cent of them contribute to the GDP (Ofori & Aryeetey, 2011). For instance, the agricultural sector employs about 56 percent of the labour force, followed by services (29%) and industry (15%) (GSS, 2013). It is in the light of the above enormous contributions that the Italian government has given Ghana a soft loan of GH¢86.68 million (€22 million) out of which GH¢34.9 million (€10 million) has been earmarked for the SME sector. Again, the European Union (EU) has also made available €80 million to Ghanaian entrepreneurs from the European Investment Bank (EIB). The fund, approximately GH¢315 million, has been set aside by the EIB to support investments into small and medium enterprises (SMEs) which are engaged in exports from Ghana (Amankwah, 2014).

This implies that Ghanaian SMEs are exposed to greater opportunities than ever for expansion and diversification. Notwithstanding, these opportunities, SMEs still continue to battle with issues such as poor governance, basic record keeping (Marfo-Yiadom, 2002; Bowen, 2009; Oduro, Marfo, Gyabaah & Oduro, 2014; Amoako, 2012), financial management practices (Agyei, 2014; Ooghe, 1998), administrative challenges and difficulty in accessing finance (UNEP, 2007) very small market due to low level of income and massive inflow of foreign commodities and low quality of labour (KDI, 2008) that hinder their growth

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and performance. The importance of finance in promoting the growth of micro, small and medium enterprises cannot be overemphasized (Abor & Biekpe, 2006) Frimpong, 2014 posits that the growth of small businesses is mainly due to the issue of finance.

The difficulty in accessing finance has been documented as the most significant constraint facing SMEs in both advanced and developing economies (Mensah, 2004; MFPED 2008; Mina, Lahr & Hughes, 2012; Beck, 2007). In Ghana, Lashitew (2011) and Beck (2007) argue that access to finance is still a problem for SMEs. This is substantiated by a Global Competitiveness Report 2010-2011 which indicated that access to finance is still seen as the most single factor restraining the development of businesses in the SMEs sector.

Most SMEs do not keep proper books of accounts and so it becomes difficult to access finance to promote their activities. According to Marfo-Yiadom (2002), many traders give figures of their operations from memory. Hence, Peacock (1988) was right when he argues that, many SMEs fail largely due to inefficient and/or lack of financial records. Additionally, Evans, Carlon and Massey (2005) argue that an appropriate record keeping system can determine the survival or failure of a new business. ‘‘For those already in business, good record keeping systems can increase the chances of staying in business’’ (Cordano 1991, p2). Similarly, McCannon (2002) asserts that, many SMEs fail because owner managers of SMEs cannot make timely and important managerial decisions due to inadequate financial records. Marfo-Yiadom (2002) posits that this affect SMEs growth negatively and make it difficult for owner managers to distinguish clearly

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between what constitute working capital and profit. This implies that inefficient financial management may damage business efficiency and this will continuously affect the growth of the micro, small and medium enterprises. Irena (2013) was right when she noted that generally, the main cause underlying the problems of SMEs is financial management of owner-managers. Most SMEs have not appointed financial managers to be in charge of financial management of their companies. More often than not, the owner-managers with the assistance of some persons control financial matters of the company.

In addition, most owner-managers have no formal training in management skills, especially financial management skills. Inadequate knowledge of financial management combined with the uncertainty of the business environment often leads SMEs to serious problems regarding financial performance. Regardless of whether owner-manager or hired-manager, if the financial decisions are wrong, performance of the company will be adversely affected. The positive correlation between poor or non-existent financial management (including basic accounting records keeping) and business failure has well been documented in western countries (Peacock, 1985 & 2004). This is because efficient financial management will help SMEs to strengthen their profitability through increased sales. Most commercial banks refuse to offer loans for SMEs because of the weak collateral base of SMEs (Cassar & Holmes, 2003). In the light of the above, this study will enable commercial banks to evaluate financial management practices and make decisions on granting loans for SMEs. In addition, it will help SMEs improve their performances and reinforce the need for proper

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financial management practices. Owing to their importance to the Ghanaian economy, there was the need to conduct a study to investigate financial management practices by the SME's and how these affect business performance.

Statement of the Problem

From the foregoing background of the study, many studies have shown that financial management remains a major constraint to SMEs (Peacock, 2004; Irena, 2013; Agyei, 2014). Most business development agenda emphasize need for effective management and one of the areas of management identified as having potential for survival and sustained equitable growth of business and non-profit organisation is proper financial management. Many micro, small and medium scale enterprises which are profitable are forced to cease their operations due to the inability to meet their short term debts obligations. The situation is not that they do not have funds to operate, but the problem is how they manage their finance (Marfo-Yiadom & Agyei, 2011; Pieterson, 2012).To gain empirical insight into this state of affairs, there is a need to conduct an investigation into the financial management practices of small and medium scale enterprises in so far as their working capital is concerned and why small and medium scale enterprises which are profitable collapse.

Although, the problem of finance and for that matter financial management has been identified as one of the major constraints to growth of small businesses (Mensah, 2004; Beck, 2007; MFPED 2008; Lashitew, 2011; Mina, Lahr & Hughes, 2012; Agyei, 2014), most of the research works

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concentrate on capital structure of SMEs (Marfo-Yiadom, 1996; Marfo-Yiadom, 2002; Abor & Biekpe, 2006; Marfo-Yiadom & Agyei, 2011; Agyei-Mensah, 2012; Pieterson, 2012) In Addition, most of the researches do not establish the relationship between financial management practices and performance.

Furthermore, in spite of the fact that previous researches on financial management have been undertaken, most were done on large firms. Zingales (2000) asserts that, “empirically, the emphasis on large companies has led us to ignore (or study less than necessary) the rest of the universe: the young and small firms, who do not have access to public markets”. Furthermore, none has investigated all the six financial management practices (financial records keeping, account receivable management, cash management, inventory management, account payable management and asset management) in one study.

Additionally, most of the researches were done in different geographical areas such as Kumasi, Kasoa, Cape Coast, Tema, Accra and Sunyani with different business conditions that can influence the study outcomes. Besides a specific research examining the financial management practices and performance of SMEs in the Sekondi-Takoradi and in general Ghana, could not be found.

Therefore, the problem to be addressed in this research is to examine financial management practices and their relationship with the performance of SMEs in Sekondi-Takoradi. Some questions therefore arise to which answers ought to be found. For example, what effect does financial management practices have on performance? What measures could be

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adopted to ensure effective management practices of SMEs in Sekondi-Takoradi Metropolis? What moderating effect does firm's age have on the relationship between financial management practices and performance in the SMEs sector in Ghana? To what extent do owner managers of SMEs employ financial management practices? What are the strategies adopted by SMEs in managing the components of working capital? What are the records kept by SMEs to monitor their business operations?

The aforementioned issues are of particular concern to policy makers due to the fact that SMEs sector is widely recognized as being the major net job creator in both developed and developing economies (OECD, 2006a; 2006b).The quest for answers for these and other related questions which target the people engaged in SMEs constituted the basis of this study. It is therefore important to undertake this study to add to the existing literature on the various financial management practices and also serve as a valuable source of information on the subject in Ghana as a whole and the Sekondi-Takoradi Metropolis in particular.

Objectives of the Study

The general objective of this study is to examine financial management practices and their relationship with performance of SMEs in the Sekondi-Takoradi Metropolis. Specifically the research sought to:

1. determine the extent of financial management practices of SMEs in the Sekondi-Takoradi Metropolis;

2. examine strategies adopted by owner managers in managing the components of working capital;

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3. determine the effect of financial management practices on performance; and

4. establish the moderating effect of firm's age on the relationship between financial management practices and performance in the SMEs sector in Sekondi-Takoradi

Hypotheses of the Study

In order to achieve objectives 3 and 4 the following hypotheses were tested:

$H0_{1-a}$ There is no association between Financial record keeping practices and SMEs performance

$H0_{1-b}$ There is no association between Account receivable management practices and SMEs performance

$H0_{1-c}$ There is no association between Account payable management practices and SMEs performance

$H0_{1-d}$ There is no association between Inventory management practices and SMEs performance

$H0_{1-e}$ There is no association between Cash management practices and SMEs performance

$H0_{1-f}$ There is no association between Asset management practices and SMEs performance

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$H0_{2\text{-}a}$ Firm's age does not have a moderating effect on the association between financial records keeping practices and SMEs performance

$H0_{2\text{-}b}$ Firm's age does not have a moderating effect on the association between Account receivable management practices and SMEs performance

$H0_{2\text{-}c}$ Firm's age does not have a moderating effect on the association between Cash management practices and SMEs performance

$H0_{2\text{-}d}$ Firm's age does not have a moderating effect on the association between Inventory management practices and SMEs performance

$H0_{2\text{-}e}$ Firm's age does not have a moderating effect on the association between Account payable management practices and SMEs performance

$H0_{2\text{-}f}$ Firm's age does not have a moderating effect on the relationship between Asset management practices and SMEs performance

Scope of the Study

Financial management as used in this study is composed of working capital management practices which are also subdivided into cash management practices, account receivable management practices, account payable management practices and inventory management practices. Other

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constructs under financial management include financial record keeping practices, and asset management/ investment practices.

There is always a difficulty as to which performance indicator to use for such a study. This is due to the fact that performance can be measured by several indicators. The performance indicator for this study is sales volume. It is worth noting that, this performance indicator has been used in previous studies (Yusuf & Saffu, 2005; Saffu & Manu, 2004).

Only registered small and medium enterprises in the database of National Board for Small Scale Industries in the Sekondi-Takoradi metropolis are used in the study.

Significance of the Study

The outcome of the study may be a basis for SMEs policy formulation and implementation. It is believed that the outcome of the study will help institutions and or organisations mandated to see to the management of micro, small and medium scale enterprises to formulate and implement policies as well as adopt practices that will help them to effectively manage finance, determine ways management can effectively improve their financial management practices and skills. The implementation of such policies would be of immense benefit not only to the SMEs but also the country as a whole since SMEs provides the bulk of employment opportunities and constitute the foundation on which the growth and development of the economy depends.

This study would also provide useful information for designing strategies to influence the growth of small-scale enterprise. The information

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would also assist officials of the Ministry of Trade and Industries in formulating small-scale industries growth policies and programmes which are responsive to entrepreneurs' local needs.

The study will also be beneficial to SMEs. This is because the outcome of the study would show the effect of financial management practices on performance of SMEs. This would help the owner managers to know how important it is for them to employ efficient financial management practices in order to boost their performance. In particular, the outcome of the study would bring out the financial management practices that significantly affect performance.

The study might also benefit the various stakeholders of SMEs. Some of these stakeholders include but not limited to Non-Governmental Organisations, foreign agencies like the German Technical Cooperation (GTZ) and United States Agency for International Development (USAID), Invest in Africa (IIA), and other consultants that are committed to seeing the development, growth and the alleviating of poverty in Africa and Ghana in particular. For example, the study might be good bases for consultants in designing training programmes for SMEs in order to meet their financial management obligations.

Finally, the study would also serve as a basis for further research on financial management practices of SMEs in Ghana.

Organisation of the Rest of the Study

The study consists of five chapters. Chapter one which is the introductory chapter is made up of the background to the study, statement of

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the problem, research objectives, and research hypotheses, significance of the study, scope of the study and organization of the thesis.

Chapter two is the literature review which is made up of conceptual and empirical frameworks underpinning the financial management practices. A conceptual framework is developed from the literature review. Chapter three discusses methodological issues. In this chapter, issues covered are research design, study area, target population, sampling technique, sample size determination, research instrument, validity and reliability tests, data collection procedure and data analysis. The chapter ends with ethical issues relating to the study. Chapter four presents the research results and discussion. The chapter presents the major findings of the study, and discussions of the findings. The study ends with chapter five which consists of summary, conclusions and recommendations.

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CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter reviewed the literature available on the financial management. It summarizes the information from other researches carried out in the same field of study. The specific areas covered in this chapter are, theoretical review of literature. The empirical review focuses on the independent variables namely financial records keeping, account receivable management, cash management, inventory management, account payable management and asset management. The chapter ends with a conceptual framework which summarises the relationship between the key variables of the study and identifies the gap to be filled by the study.

The Concept of Small and Medium Enterprises

There is no single, uniformly acceptable, definition of the term SMEs (Storey, 1994). SMEs internationally constitute a diverse and dynamic group of enterprises. This is due to the fact that, firms differ in their levels of capitalisation, sales and employment. Hence, definitions which employ measures of size indicators such as number of employees, turnover, profitability and net worth when applied to one sector could lead to all firms being classified as micro and or small whereas the same measure of size indicators could lead to a different result when applied to different sector.

However, Bitzenis and Nito (2005) and IFC (2009) argue that most of the definitions of SMEs are based on number of employees, annual turnover, value of assets, loan size and capital.

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The classification of SMEs has been based on the following criteria: capital assets, skill labour, turnover level, firm size, legal status, and method of production (Lopez & Aybar, 2000). The first attempt to overcome this definition problem was by the Bolton Committee (1971) when they formulated an "economic" and a "statistical" definition.

Under the economic definition, a firm is regarded as small if it meets the three criteria: it has a relatively small share of their market place; it is managed by owners or part owners in a personalised way, and not through the medium of a formalised management structure; and it is independent, in the sense of not forming part of a large enterprise.

The Committee also devised a "statistical" definition to be used in three main areas:

1. quantifying the size of the small firm sector and its contribution to GDP, employment, exports etc.;
2. comparing the extent to which the small firm sector's economic contribution has changed over time; and
3. applying the statistical definition in a cross country comparison of the small firms' economic contribution.

The European Union (EU) member states use the following classification: micro enterprises: 1-9 employees; small enterprises: 10-49 employees; medium-sized enterprises: 50-249 employees; and large-sized enterprises: 250 or more employees (Bitzenis & Nito, 2005). The general conclusion emanating from these classifications suggests that there is no one universal definition for SMEs.

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The Concept of Small and Medium Enterprises in Ghana

In Ghana, Kayanula and Quartey (2000) indicate that various classifications on what constitute SMEs have been provided. However, most frequently used criterion for classification has been the employment size. For example, the GSS classifies firms with less than 10 employees as small-scale enterprise and firms with more than 10 employees as medium and large-sized enterprises. Another case in point is the UN Advisor Group (2008) which uses the employment cut off point as stated in the Steel and Webster (1991) criteria in defining small scale enterprises in Ghana. They disaggregated SMEs into 3 categories: (i) micro: employing less than 6 people; (ii) very small: employing 6-9 people; and (iii) small: employing between 10 and 29 employees.

An alternate criteria used in defining small and medium enterprises is the value of fixed assets in the organisation. The National Board for Small Scale Industries (NBSSI) mandated to promote the growth and development of SMEs in Ghana applies both the `fixed asset and number of employees' criteria. NBSSI defines micro enterprises as one that employ up to 5 employees with fixed assets (excluding realty) not exceeding the value of $10,000; small enterprises: employ between 6 and 29 employees with fixed assets of $100,000. Medium enterprises: employ between 30 and 99 employees with fixed assets of up to $1million (Mensah, 2004)

A more recent definition is the one given by the Regional Project on Enterprise Development Ghana manufacturing survey paper as cited in Abor and Quartey, (2010), classified firms in Ghana as follows: (i) micro enterprise, less than 5 employees; (ii) small enterprise, 5-29 employees; (iii)

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medium enterprise, 30-99 employees; (iv) large enterprise, 100 and more employees. However, the Ghana Statistical Service (GSS) defines small businesses as enterprises that employ less than 10 persons while those that employ more than 10 people are classified as medium and large-sized enterprises (Amoako, 2012).

Abor and Quartey (2010) posit that, the process of valuing fixed assets poses a problem and the continuous depreciation of the local currency as against major trading currencies often makes such definitions out-dated. For these reasons, this study adopts the definition of SMEs based on the number of employees as this criteria has been used in previous studies (Amonoo, Acquah & Asmah, 2003) and it is accessible, reliable, and can be used readily for comparative purposes (Voulgaris, Doumpos & Zopounidis, 2000). Hence, for the purpose of this research, the GSS and the NBSSI definition of small businesses is adopted. This is because, the researcher used data on registered SMEs provided by the NBSSI for the Sekondi-Takoradi metropolis.

Theoretical Framework

This section discusses the theories that relate to financial management and SMEs performance. Theories of working capital management are applicable to run an organization. These theories are designed and developed for promising positive cash flow and maximizing the profit to stakeholders. Working capital theories comprise of large complex strategies for administration, maintenance of financial operations

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and minimizing risk involve in different aspects of such operations. By using financial management theories and principles, it becomes easy for owner managers to figure out way to handle various affairs of an organization. Some of the theories that are applicable to run an organization are as follows:

Agency Theory

Agency theory deals with the people who own a business enterprise and all others who have interest in it like managers, banks, creditors, family members and employees. The agency theory postulates that the day to day running of a business enterprise is carried out by managers as the agents who have been engaged by the owners of the business as principals who are also known as shareholders.

This theory places emphasis on transaction costs, contracting analysis following the work of Coase (1937) Jensen and Meckling (1976) and most important, Stiglitz and Weiss (1981).The work of these writers all point to the challenges that surround ownership, contractual agreements, management interrelationship, credit rationing and so on between SMEs and external providers of finance, thereby subjecting firms to the risk of asset substitution which in practice means a change in the firm's asset structure. For very small and micro-enterprises this asset substitution may well take place between the enterprise and the owner's household.

The presence of these problems in small firms may explain the greater use of collateral lending to small firms as a way of dealing with these

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agency problems. Lenders' strategies for dealing with these problems also add significantly to the cost of dealing with this sector. For a large enterprise the evaluation of an application for finance may be limited to the assessment of an (audited) set of financial statements and supporting documentation provided by the applicant, while for SMEs the assessment frequently has to go far beyond this, implying a substantially higher transaction cost.

The theory is on the notion of the principle of two sided transaction. It holds that any financial transactions involve two parties and both act on best interest but with different expectations. The major problem associated with this theory includes information asymmetry, moral hazard and adverse selection (Kwame, 2010). According to Stiglitz and Weiss (1981), agency problems such as asymmetric information and moral hazards can impact on the availability of credit and hence the financial management of SMEs.

Cash Conversion Cycle Theory

Cash conversion theory was propounded by Blinder and Maccini (2001). Cash conversion cycle theory is the time it takes a company to convert its resource inputs into cash. It evaluates how effectively a firm is managing its working capital. In most cases, a company acquires inventory on credit, which results in accounts payable. A firm can also sell products on credit, which results in accounts receivable. Cash, therefore, is not involved until the firm pays the accounts payable and collects accounts receivable. So the cash conversion cycle measures the time between outlay of cash and cash recovery (Siddiquee, Khan & Shaem Mahmud, 2009).

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This cycle is essential for retailers and similar businesses. This measure describes how quickly a company can convert its products into cash through sales. The shorter the cycle, the less time capital is tied up in the business processes, and thus the better for the company's bottom line (Wang, 2002). The proponents of this theory argue that a short cycle allows a business to quickly acquire cash that can be used for additional purchases or debt repayment. The lower the cash conversion cycle, the more healthy a company generally is. Businesses attempt to shorten the cash conversion cycle by speeding up payments from customers and slowing down payments to suppliers. Cash conversion cycle can even be negative; for instance, if the company has a strong market position and can dictate purchasing terms to suppliers that is it can postpone its payments (Brennan, Maksimovic & Zechner, 2003)

Richards and Laughlin (1980) argued that traditional ratios such as current ratio, Quick acid test and cash ratios has not been able to provide accurate information about working capital and insisted on using ongoing liquidity measures in working capital management, where ongoing liquidity refers to the inflows and outflows of cash as a product of acquisition, production, sales, payment and collection process done over time. The firm's ongoing liquidity is a function of its cash conversion cycle, hence the appropriateness of evaluation by cash conversion cycle, rather than liquidity measures (Wilner, 2000)

Pecking Order Theory

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The pecking order theory as propagated by Myers (1984) states that firms finance their needs in a hierarchical order, first by using internally available funds, followed by debt and finally, external equity. According to the report by South African reserve bank (2004), this practice is more common in small firms practice and indicates the negative relationship between profitability and external borrowing by small firms. This hypothesis implies that there tends to be a negative relationship between profitability and external borrowing by small firms.

Implicit in pecking order theory are two key assumptions about financial managers. The first of these is asymmetric information, or the likelihood that a firm's managers know more about the company's current earnings and future growth opportunities than do outside investors. The use of internal funds saves managers from having to make public disclosures about the company's investment opportunities and potential profits to be realized from investing in them. The second assumption is that managers will act in the best interests of the company's existing shareholders. The managers may even forgo a positive-NPV project if it would require the issue of new equity, since this would give much of the project's value to new shareholders at the expense of the old (Myers & Majluf, 1984).

Small and medium enterprises often suffer problems linked to asymmetric information, which causes information costs. Empirical evidence from previous studies that examined SMEs was consistent with the pecking order argument, since leverage was found to be negatively related to profitability. The pecking order theory seems particularly relevant for SMEs due to their typical features and limited access to external finance (La

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Rocca, La Rocca, Cariola, 2009). Frank and Goyal (2003) investigated whether SMEs natural financial behavior can be described by the pecking order theory. They argue that SMEs are likely to be affected by typical asymmetric information problems like adverse selection and moral hazard. Cassar and Holmes (2003) argue that owner managers of SMEs may have constrained skills about financial decision making compared to larger companies. They found empirical evidence that profitability and growth are important influences on SMEs financing.

Financial Management

Financial management is one of several functional areas of management which plays pivotal role in the success of any small business. Agyei-Mensah (2010) examines working capital management practices of SMEs in the Ashanti region of Ghana. Using a sample of 800 randomly selected firms, the study revealed weak financial management skills within the sector. Examining financial management practices of SMEs in Malaysia, Harif, Osman, & Hoe 2010 found that lack of working capital which accounted for 93.6 per cent is the most common weakness in the area of financial management practice.

Financial management is concerned with the management of finances of a business in order to achieve the financial objectives set by the business. Financial management is concerned with raising the needed funds to finance the firm's assets and activities, effective allocation of funds between competing uses, and ensuring that the funds are used effectively and efficiently in order to accomplish the desired goal of the business

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(McMahon, Holmes, Hutchinson, & Forsaith (2008). Suraz (2011) explains that financial management is concerned with all areas of management involving not only the sources and uses of finance in the enterprise but also the financial implications of investment, production, marketing or personnel decisions and the total performance of the enterprise.

Financial management as used in this study is composed of six (6) concepts and these include: account receivable management, cash management, inventory management, account payable management, asset management and financial records keeping.

Account Receivable Management

Accounts receivable is money owed to a firm when it sells its products or services on credit and it does not receive cash immediately. Pandey (2004) argues that firms provide trade credit as a marketing strategy to expand or maintain sales. It is provided when there is a delay between the delivery of goods and the provision of services by a supplier and payment for them.

Businesses make sales on credit for two basic reasons. The first reason is that selling on credit may be more convenient than selling for cash. Additionally, offering credit will encourage customers to buy items they might not otherwise purchase (Cunningham, Nikolai & Bazley, 2000). Explaining why firms would like to sell on credit other than on cash, Chandra (2008) asserts that, the pressure of competition persuades business to sell on credit. Credit sales is valuable to customers as it supplements their resources- especially customers who cannot borrow from other sources or

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find it very expensive or inconvenience to do so. Exploring how demand-side factors affect access to external finance by micro, small and medium manufacturing enterprises (MSMMEs) in the Kumasi Metropolis, Siaw (2014) found that, the major reason for selling on credit was to attract more customers (34.16%). Other reasons include to increase sales (27.08%), because of competition (23.01%) and to enhance profitability (15.75%).

The primary goal of accounts receivables management, according to Hrishikes (2002), is to maximize the value of the firm by striking a balance between liquidity, risk and profitability and this can be achieved by setting out credit terms, selecting the customers and installing appropriate collection and monitoring system and financing the receivables for maximizing the value of the firm. Joshi (2000) also indicated that the primary objective of investment in trade debtor is to increase profit by expanding sales to attract new customers and retain old customers. By constantly increasing its sales and profit the business carves out a bigger niche in the market and elevates its status among competitors.

Peel, Wilson and Howorth (2000) investigates late payment and credit management in the small firm sector and report that 91.4 per cent of SMEs review their debtors' credit period with 23.5 per cent frequently reviewing it. In terms of suppliers' credit, their research shows that only 12.2 per cent of respondents stated that they never reviewed their payment period to suppliers and about 65.4 per cent of sample SMEs says they review the stock level of their companies.

Solanki (2009) examines SMEs in India and found that 13.75 per cent review account receivable and payables daily, 36.25 per cent review weekly,

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27 per cent review monthly, 10 per cent did so in other period, while 13 per cent never did any review. These results indicate that SMEs do not frequently review both their suppliers and customers' credit. Panigrahi (2013) examines current policies and practices of working capital management at Saregama India Limited and tries to identify the strengths and weaknesses of the company, the opportunities it has and the threats it faces as well as a detailed analysis of the various factors affecting the working capital requirements of the company as well as the impact they have on its profitability. The study revealed that the company's digital sales, cash sales, forecasting model that captures the tastes and preferences of consumers and a strict credit policy implementation are problematic.

Account Receivable Management and Performance

According to Pedro and Pedro (2008), provision of trade credit has effect on the level of investment in assets and consequently impact on the profitability and liquidity of the firm. They argue that provision of trade credits has positive effect on sales as it improves the sales of the firm. However, over-investment in accounts receivables can adversely affect the operations of firm. This is due to the fact that, it will lead to an increase of investment in current assets and also give wrong signals to late paying customers.

Debasish, Joydeep and Prasenjit (2001) investigate the association between the liquidity and profitability of Indian Private Sector enterprises as a case of Aluminum producing industry. They identified that there is a very high degree of positive correlation between liquidity and profitability of

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selected companies. They also observed that liquidity variables jointly influence profitability of the selected companies.

A business should have a rational for debt collection. Collection policy can be tight policy which ensures better collection, fewer instances of bad debt but high collection costs. Hence, in establishing credit standards, Horn (2000) posits that customers must be categorized for the purpose of granting or refusing credit to them. This according to Horn (2000) this will enable the firm to avoid spending time investigating the credit worthiness of customers who fall within the refused category.

However, Horn (2000) argues that customers who fall within the credit worthiness group should be granted credit. A lenient credit policy offers credit to customers with poor creditworthiness and thus leading to increased debtors. This can retard the growth of the business in the future. However, a stringent credit policy only offers credit to credit worthy customers, and thus, reduces the level of creditors. This ensures that the enterprise have available cash to run its activities which may lead to increased sales. SMEs due to their smallness may be in a weaker position in terms of their dealings with suppliers and customers. As argued by Solanki (2009), SMEs cannot command suppliers' credit in the way large firms do and also if they remain slow payees the supplier may refuse credit or they may quote higher prices.

As a norm, suppliers may always find means to reduce the amount of credit given to customers; while customers may always find means to demand greater credit from their suppliers (Marfo-Yiadom & Agyei, 2011). This means that the lack of proper management of the target level set for

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each component of working capital management will ultimately lead to a reduction in profitability due to the external pressure from both suppliers and customers. The target level of working capital management components will also have influence on the profitability of companies because whilst suppliers' credit can be used as a vital source of finance to fund operations, credit extended to customers also represent money locked up in working capital which could have been invested to earn profit.

Inventory Management

Inventory management is another important financial management concept that is critical in ensuring effective and efficient organization. It is also vital in the control of materials and goods that have to be held (or stored) for later use in the case of production or later exchange activities in the case of services. There are several types of inventory which a business can keep depending on the nature of its operations. These may include raw materials, work-in-progress, components and parts and finished goods (Cinnamon, Helweg-Larsen, & Cinnamon, 2010; Gitman, 2009; Arnold, 2008). Ballon (2004) defines inventories as stockpiles of raw materials, supplies, components, work in process, and finished goods that appear at numerous points throughout a firm's production.

The objective of inventory management is to turn over inventory as quickly as possible without losing sales from stock-outs. Inventory management is an important aspect of working capital management because inventories themselves do not earn any revenue. Holding either too little or too much inventory incurs costs. However, effective inventory management

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helps to determine how profit of an organization can be maximized. This is the case because profit maximization depends on minimizing cost and maximizing revenue. In addition, effective inventory management in organization ensures that at any point in time the capital of the business is not necessarily tied up in inventories in the store. This will minimise the probability of inventory theft.

Strategies for Managing Inventories

Gitman (2009) posits that the costs of carrying too much inventory are opportunity cost of foregone interest, warehousing costs, damage and pilferage, obsolescence and insurance. However, the costs of carrying too little inventory are stock out (i.e. lost sales, delayed service), and ordering costs (i.e. freight, order administration and loss of quantity discounts). Hence, Birt, Chalmers, Brooks, Byrne and Oliver (2011) suggest the Just-In-time approach (JIT) approach as strategy for effectively managing the firm's inventory. It is concerned with the delivering of raw materials. When using the JIT system, goods can be delivered directly to the production area, eliminating raw material storage areas. According to Cinnamon et al., (2010), the main objective of using just-in-time approach is to have the supplier carrying the goods rather than it being carried by the purchaser.

Inventory Management and Performance

Empirical studies have shown that inventory conversion period has a negative effect on a business's performance. This is the case because Panigrahi (2013) argues that if inventory conversion period comparatively

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decreases over a period of time it enables higher turnover in sales and increase in gross operating profit. Hence, the expected relationship between inventory conversion period and gross operating profit should be negative. This finding confirms that of Deloof (2003) who investigated the relation between working capital management and corporate profitability for a sample of 1,009 large Belgian non-financial firms for the period 1992-1996. It was revealed that there was a negative relationship between profitability that was measured by gross operating income and cash conversion cycle as well number of day's accounts receivable and inventories. Deloof (2003) posits that managers can increase corporate profitability by reducing the number of days of accounts receivable and inventories. This is due to the fact that less profitable firms waited longer to pay their bills.

Furthermore, Deloof (2003) argues that shortening the inventory conversion period could lead to an increase in stock out costs of inventory which results in losing sales opportunities and consequently leads to poor performance. This assertion is in line with argument put forth by Lazaridis and Dimitrios (2005) that managers of firms should put in measures to keep their inventory to an optimum level since mismanagement of inventory will lead to tying up excess capital at the expense of profitable operations. Similarly, Padachi (2006) investigates 58 small manufacturing firms, using panel data analysis for the period 1998 – 2003. He used return on total assets as a measure of profitability and the relation between working capital management and corporate profitability. The regression analysis shows that high investment in inventories and receivables is associated with lower profitability.

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Singh (2008) examines inventory and working capital management of Indian Farmers Fertilizer Cooperative Limited (IFFCO) and National Fertilizer Limited (NFL). He reports that the overall position of the working capital of IFFCO and NFL is satisfactory. The study also revealed that firms with poor inventory management practices are faced with serious problems which destroy the long-term profitability and survival. In addition to the above, firms that employ efficient inventory management practices can reduce inventory to an optimal level which has positive effect on production and sales. Notwithstanding, he argues that, there is the need for improvement in inventory in case of IFFCO since the result revealed that inventory was not properly utilized and maintained by IFFCO during study period.

Dimitrios (2008) investigates the effect of inventory management on firm performance. He reports that too much inventory could demand more physical space, increase the possibility of inventories damage, deterioration and losses and consequently, could lead to financial problems. Additionally, Dimitrios (2008) argues that holding large amount of inventory frequently is an indication of inefficient and careless management practices and procedures. However, keeping too little inventories might also lead to the interruption of operation in manufacturing, increase the possibility sale loss and consequently lower the profitability of the firms.

However, Panigrahi (2013) posits that there can be an unexpected relationship, where the correlation between inventory conversion period and sales can be positive. Panigrahi (2013) indicates that decrease in inventory conversion period can result into decrease in sales and vice versa. This

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unexpected relationship shows the ineffectiveness of managers to increase sales level because of decrease in inventory conversion period.

Padachi (2006) investigates trends in working capital management and its impact on firm's performance for 58 Mauritian small manufacturing firms during 1998 to 2003. He reports that well designed and implemented working capital management is expected to contribute positively to the creation of firm's value. The results of the study also indicates that high investment in inventories and receivables is associated with low profitability and also showed an increasing trend in the short term component of working capital financing.

Cash Management

Cash refers to currency in the form of paper notes and coins that is generally accepted as a medium of exchange for goods and services. It also includes money in hand, cheque, petty cash, bank accounts balances and short-term highly liquid investments held by the firm (Attom & Mbroh, 2012). Marfo-Yiadom and Agyei (2011) posit that cash is the life blood, most liquid and coveted asset of every enterprise. This is substantiated by the fact that cash is used to pay creditors, pay for purchases for goods and services, to acquire non-current assets and pay employees wages and salaries. Furthermore, cash is needed to settle interest on loans and taxation. The success of a business depends to a large extent on how the firm's manages its cash. This is because according to Lasher (2000), poor cash management can make a strong company weak and even lead to failure. He further argues

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that among small firms, it is surprising for them to be simultaneously profitable and bankrupt.

Brinchk, et al (2011) was right when they concluded that the gap between cash expenses and cash collection enhances liquidity and profitability position of the business and consequently over a period of time leading to the overall growth of the business.

Cash management is concerned with strategies by which a business controls and invests its cash. It also involves how effectively the business collects its cash. Ramachandran (2009) asserts that cash management essentially aims at establishing the financial position of the business. It is a set of guidelines established by management to ensure that the enterprise has optimal cash balance to meet the business goals. Hence, cash management basically deals with managing cash inflows and cash out flows.

Pandey (2005) investigates the importance of cash management and performance. He reports that because it is difficult to predict cash, there is the need to plan and manage cash effectively. He argues that sometimes cash outflows may exceed cash inflows because of payment of taxes, acquisition of business assets among others. However, there are times when cash inflows may also exceed cash outflows due to large sales, prompt cash receipts, and sale of business assets among others.

Cash Management Strategies

Writing on the strategies to ensure effective cash management in business, Pandey (2004) and Arihoona (2011) outlines strategies in managing cash flows. These strategies include giving customers short credit

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period, seeking credit purchases from suppliers, ensuring proper debt collection procedure and investing surplus cash.

Preparation of cash budget is one of the sure ways of managing cash (Siaw, 2014). Cash budget refers to a table showing cash flows (receipts, disbursements, and cash balances) for a firm over a specified period of time. Cash budget therefore, identifies all the cash receipts components and a schedule that tracks cash payments to suppliers with respect to purchases. (Brigham & Ehrhardt, 2008) The cash budget is a measure that establishes the cash position (deficit or surplus) of a firm given the cash inflows and outflows over a period of time. Marfo-Yiadom (2009) affirmed the position of Brigham & Houston (2001) who hold the view that cash budget is the most significant device to plan for and control the cash receipts and payments of an enterprise.

Attom (2013) investigates cash management practices by micro and small-scale enterprises at Kasoa in the Central Region of Ghana. He reports that only 21.40 percent of these micro and small-scale enterprises prepared cash budget with only 25.10 percent and 26.75 percent of them keeping proper accounts and keeping track of their cash payments respectively. Only 36.52 percent of the micro and small-scale enterprises kept track of their cash receipts.

According to Bob (2011), UK Business Advisors has produced a cash flow review checklist to help ensure a company's liquidity remains robust. This is because control of cash can make all the difference between survival and failure of business. SMEs are advised to plan the cash flow year to eliminate any potential drain on cash. Bob (2011) argues also that holding as

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little stock as possible and turning it over quickly in cash can help SMEs avoid cash shortage. He further outlines other strategies to avoid cash shortage which include reviewing all cost items, running a credit check on customers and potential customers, invoicing promptly, keeping an eye on debtors' days and reviewing wages and salaries especially in times where monthly payments are strain on cash flow.

Cash Management and Performance

Lazaridis and Tryfonidis (2006) investigate the relation between working capital management and corporate profitability of listed company in the Athens Stock Exchange. A sample of 131 listed companies for period of 2001-2004 was used to examine this relationship. The result from regression analysis indicated that there was a statistical significant positive relationship between profitability, measured through gross operating profit, and the cash conversion cycle. From those results, they argue that the managers could create value for shareholders or profit can be created by handling correctly the cash conversion cycle and keeping each of the different components of working capital (accounts receivables, accounts payables, inventory) to an optimum level.

Arihoona (2011) examines cash management and growth of small scale businesses in Ntungamo market in Kampala. He reported that there is a positive significant relationship between cash management and growth of small scale businesses. He observed that poor cash management practices constrains business operations and some customers who are not satisfied with the services run away signifying poor performance and hence retards

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the growth of the business. Arihoona (2011) further argues that business operators should always reconcile cash at hand with cash banked and also maintain clear debt collection procedures.

Moyer, Maguigan and Kretlow (2001) posits that the importance of keeping cash balances by micro, small and medium-scale enterprises cannot be overemphasized. They substantiate their argument by the fact that effective cash management assist SMEs meet the requirements for accessing bank loans and dealing with the high cost of operation. In addition, Moyer et al (2001) assert that the rapid growth of many entrepreneurial firms in terms of sales requires increases in inventories and accounts receivable which can lead to the tendency of the business to run out of cash. Hence, the need for effective cash management.

The business should always keep sufficient cash neither more or less as cash shortages disrupts the business operations while excess cash will remain idle (Chen *et al.* 2011). The above components of cash management are utilized in the transaction process and therefore the quantities and qualities of these components are vital in determining the level of sales, profitability that result in business growth.

Payables Management

Accounts payable is one of the major sources of spontaneous finance (Gitman, 2009; Moyer, et al., 2009). Companies along with their suppliers need to agree to establish a relationship or partnership with specific arrangements including credit terms (Hill, Kelly & Highfield, 2010). Moyer, et al. (2009) asserts that credit terms generally include payment terms, such

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as, cash discount, credit period, credit guarantee, among others. They argue that credit period refers to time specifying maximum days in which payment should be made to suppliers. Cash discount refers to incentives given to organisations for early payments.

At time, a customer is requested to provide a credit guarantee from a financial institution. This normally occurs when the customer's creditworthiness cannot be verified or when the risk of credit default is high. In circumstances of credit default, suppliers are entitled to claim a credit guarantee to settle overdue accounts. However, this arrangement is not always imposed and it depends on suppliers' credit terms. In a sense, there is no such fixed standard of credit terms and it is normally based on the credit arrangements of organisations and suppliers.

Delaying payments to the end of the credit period or beyond the credit period creates additional short-term financing costs for the organisation. This gives an additional cushion to finance business operations; it may ruin the organisation's credit worthiness, cash discount savings and weaken a healthy financial supply chain (Brigham & Ehrhardt, 2008; Moyer, et al., 2009).

Account Payable and Performance

Nobanee and AlHajjar (2009) investigate Japanese non-financial companies listed in the Tokyo Stock Exchange for the period 1990-2004. Using a sample size of 2,123, they report that company managers can increase profitability by shortening the cash conversion cycle, the receivables collection period and the inventory conversion period. The results of the study also indicated that extending the account payables

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deferral period could increase profitability. Managers should exercise more caution because extending the payables deferral period could also damage the company's credit reputation and in the long run affects its profitability negatively. Nobanee and AlHajjar (2009) further argue that when payments to suppliers for goods supplied or services rendered are delayed, it gives organisations the opportunity to assess the quality of the products that were bought and services received. This in their view can prove to be a source of inexpensive and flexible finance for the organisation since late payment is often associated with some implicit cost such as discount for early payments.

A study by Raheman and Nasr (2007) using a sample of 94 selected Pakistani firms listed on Karachi Stock Exchange for a period of 6 years from 1999-2004 to study the effect of different variables of working capital management on the net operating profitability showed that there was a negative relation between variables of working capital management including the average collection period, inventory turnover in days, average payment period, cash conversion cycle and profitability. Besides, they also indicated that size of the firm, measured by natural logarithm of sales, and profitability had a positive relationship.

Ramachandran and Janakiraman (2009) examine the relationship between working capital management efficiency and earnings before interest and tax of the paper industry in India. They report that cash conversion cycle and inventory days had negative correlation with earnings before interest and tax, while accounts payable days and accounts receivable days related positively with earnings before interest and tax.

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Financial Record Keeping

Vedant, (2009) opines that financial records keeping is the art and science of systematically recording financial transactions and maintenance of correct and up-to-date financial records of the organization so as to enable a trader know the result of his trade at the end of a certain period and may also prove the accuracy of such record.

Bellardo and Bellardo (1992) opine that owner mangers of SMEs have the responsibility to ensure that proper record of the following financial records is kept. These according to Butler (2009) include: (i) a record of all business sales, with copies of any invoices owner managers has issued, (ii) a record of all of the owner managers business purchases and expenses, (iii) invoices for all business purchases and expenses, (iv) details of any amounts one personally pay into or take from the business and (v) copies of business bank statements These financial records, Butler (2009) argues, will assist owner managers of SMEs to prepare an income statement showing clearly the sales income received, and the expenses paid, and the actual profit/ loss made.

Musah and Ibrahim (2014) defined records as documents created or received and maintained by an organization or individual in pursuance of legal obligation or in transacting business. This definition, gives consideration to three aspects-legal, commercial and sustainability. Hence, Bellardo and Bellardo (1992) posit that proper record keeping must furnish the organisation with the necessary information it needs in order to conduct its business in a sustainable manner.

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This assertion is in line with ASA and RIM (2011) who argue that the primary motive for keeping records is at least to provide sufficient evidence of and information about business activities as well as provide a back-up memory. Maintaining business records includes entries of day-to-day transactions of business regarding its receipts and payments, the list of assets and liabilities, number of employees, inventory, organisations indebtedness among other things (McLean, 1999). Among the characteristics of a good record keeping system, according to Musah and Ibrahim, (2014) include being simple to use, easy to understand, reliable and consistently designed to provide information on a timely basis.

According to Mairura, (2011), record keeping has a long history dating back to 3600 BC. During those times, clay tablets were predominantly used to maintain records and list of commodities. However, McMahon, Holmes, Hutchinson and Forsaith (2008) contend that because of civilization, the story is different today. McMahon *et. al* (2008) argue that the choice of source of records depends on the type of business ownership. Some of the books for records keeping include cash and sales receipts, cash books, sales and purchases ledger, invoices, income and expenditure accounts, details of any other business income received, details of any private money brought into the business, details of any other income, any cash taken out of the till to pay small business expenses, waybills and payment vouchers.

Basic Recordkeeping Strategies and Skills Required for SMEs

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Owner managers of micro and small scale enterprises have many tasks. One of the most significant and vital to the success of their business is good record keeping. Howard (2009) posits that many small businesses fail to keep adequate records. This leads to major problems and quite possibly the closing of the business. According to Sian (2006), keeping good records helps increase the chances of business survival. Hence, owner managers must record all cash receipts and payments of the business.

Financial information should be recorded consistently and at all times. Ideally, it can be done daily. Walistedt (1996) contends however, that owner mangers can do recording of their business transactions weekly depending on the volume of transactions. Owner mangers have to ensure that they operate a system for checking and monitoring the recording of financial transactions. For instance, according to Zhou (2010), it is necessary to ensure that an invoice has been issued for every transaction and that a receipt is requested and obtained for every transaction undertaken. Putting in these measures, Zhou (2010) argues will enable owners / managers of SMEs ensure that all payments have been catered for. He also opines that it is important to reconcile frequently once a month all petty cash against receipts and even the bank statements.

Norman (2004) submits that effective record keeping is particularly important for small firms. He put up strategies to kick start a proper financial record management system. According to Norman (2004) small and medium enterprises must maintain separate accounts for business and personal provisions; get receipts or invoices for all business expenses and keep them in a monthly file; maintain proper order and filing system for all records;

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keep proper documentary record of assets purchased; keep tax records year wise and up to date.

Financial Record Keeping and Performance

Most empirical studies relating financial management supports the fact that proper financial record keeping has been noted to be one of the drivers of business performance in micro, small and medium scale enterprises. (Musah & Ibrahim, 2014; Bowen, 2009; Esaete, 2005; Evans, Carlon, & Massey 2005)

Musah and Ibrahim (2014) explored the relationship between record keeping and business performance for sample of 100 SMEs in the Tamale Metropolis. They employed simple regression analyses and Pearson Correlation Coefficient for the analysis. They found a positive correlation between record keeping and business performance. They concluded however that, other performance metrics such as improved customer relations, access to sustainable finance, technology diffusion, and expanding the frontiers of access to internal and international markets are equally critical drivers of SME performance. This calls for conscious and coordinated efforts aimed at enhancing the performance of SMEs in Ghana.

The findings from Musah and Ibrahim (2014) is in line with that of Esaete (2005) who employed correlation analysis of one hundred sixty-five (165) small business enterprises interviewed in un-contrived environment to show that the type, adequacy and updated-ness of records individually influenced the business performance among small business enterprises in Kampala District of Uganda evidenced by their positive correlation

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coefficients. Esaete also found that, several other factors such as the educational background of owner managers of SMEs as well as the number of years in business influence record keeping which in turn has a positive correlation with business performance. In addition to the above, Bowen *et al.* (2009) investigate business management challenges among small and micro enterprises in Nairobi Kenya. They report that there is a strong relationship between business performance and the level of training in the business management especially in business finance record keeping.

Furthermore, Evans, Carlon and Massey (2005) opine that an appropriate record keeping system can determine the survival or failure of a new business. Cordano (1991, p2) states that ‘‘For those already in business, good record keeping systems can increase the chances of staying in business’’. Nevertheless, Garlick (1971) and Marfo-Yiadom, (2002) assert that many traders gave figures of their operations from memory. Hence, Peacock (1988) argues that many SMEs fail largely due to inefficient and/or lack of financial records.

Similarly, McCannon (2002) posits that, many SMEs fail due to the fact that owner managers of SMEs could not make timely and important managerial decisions mainly because of inadequate financial records and that may affect their growth negatively and also makes it difficult for owner managers to distinguish clearly between what constitute working capital and profit (Marfo-Yiadom, 2002). In addition, Hughes (2003) investigates opportunities for records managers working in the private sector, records management society of Great Britain. He reports that the performance of a business is dependent on the existence of a good book keeping system since

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keeping business records is an important driver for the success of a business. Hence, Hughes (2003) opines that a comprehensive record or book keeping system be place to enable business owners develop accurate and timely financial reports that detail the progress and prospects of the business.

Muchira (2012) examines record keeping and growth of micro and small enterprises in Thika municipality. The study used 84 owners or managers of MSEs in Thika municipality and adopted a form of qualitative descriptive research, the case study design. Muchira reports that accurate recordkeeping of micro and small enterprises transactions is essential to the growth of the enterprises. He argues that keeping accurate records helps owner managers to calculate the business profit more accurately. Additionally, it helps to have some document to back up owner managers' tax records and that helped them avoid losses by accurately pay salaries and other bills. Muchira (2012) findings is in line with Butler (2009) who asserts that without accurate and complete records of business transactions the business is doomed to fail.

Okoli (2011) evaluates the accounting systems used by small scale enterprises in Nigeria and links proper record keeping to profitability of small scale enterprises and argues that the reason behind small businesses inability to do a critical assessment of their performance is largely due to lack of proper record keeping. Mairura (2011) examines the relationship between record keeping and performance of small businesses in Nairobi City of Kenya and found that level of education, type of business ownership, number of employees and age of business were the drivers of record keeping.

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However he failed to empirically establish the correlation between record keeping and business performance.

Akande (2011) examines the accounting skill as a performance factor for small business in Nigeria by invoking chi-square test statistic. Results from his study show that possession of a proper accounting skill by business owners significantly improves business performance.

Asset / Investment Management

The investment decisions of a firm are generally known as the capital budgeting, or capital expenditure decisions. A capital budgeting decision may be defined as the firm's decision to invest its current funds most efficiently in the long-term assets in anticipation of an expected flow of benefits over a series of years (Siaw, 2014). The long-term assets are those that affect the firm's operations beyond the one-year period. The firm's investment decisions would generally include expansion, acquisition, modernization and replacement of the long-term assets.

According to Olawale, Olumuyiwa and George (2010), capital budgeting is one of the most important responsibilities of the owner managers of small businesses and it is the most important financial decisions that face owner managers of small firms. It is therefore expected that SMEs will make use of it when undertaking long-term investment which involves huge financial outlay. A case in point is investment in capital assets. There are different investment techniques that can be used in the capital budgeting process. These include payback period, net present value, internal rate of return, discounted payback period, accounting rate of return and profitability

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index. Olawale *et al.* (2010) found that small firms mostly do not make use of sophisticated investment appraisal techniques.

Among the factors that influence owner/ manager choice of a particular investment technique, a study by Siaw (2014) on how demand-side factors affect access to external finance by micro, small and medium manufacturing enterprises (MSMMEs) in the Kumasi Metropolis, Ghana, using a sample size of 440 MSMMEs revealed that factors such as the ease with which that investment technique is and familiarity of the technique were ranked as the main reasons. Other factors that influence the choice of a particular investment technique were increased use of computer technology and financial tools and programmes available, preference by the owner manager and training of the owner manager. Olawale (2012) contends that small and medium scale enterprises engaged in detailed strategic planning are more likely to use formal investment appraisal techniques, including the net present value method, which is consistent with maximization of firm value. It can be inferred from this that the way to maximize a firm‘s value is to make good and unbiased estimates of the present value of projects (Olawale et al 2010).

Investment decisions and Performance

Wanjeri, (2005) opines that the effects of investment decisions extend into future and have to be endured for a longer period than the consequences of the current operating expenditure. He argues further that a firm's decision to invest in long-term assets has decisive influence on the rate and direction of its growth.

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Olawale (2012) posits that the result of investment appraisal decisions continues to impact on the firm for many years. This is due to the fact that any decision made during the capital budgeting process determines the future growth and productivity of the firm (Olawale et al 2010). Farragher *et al*. (1999) cited in Olawale, *et al.* (2010) and Siaw (2014) argues that the success of small businesses is dependent on effective allocation of the firm's resources. According to Olawale *et al.* (2010) most theorists such as Arnold (1998) posits that the effective allocation of resources can be best achieved through a sophisticated capital investment process. He argues further that such a process will enhance the possibility of making good investment decisions by helping to ensure that the organisation strategy is followed, that all investment opportunities are considered and hence minimize any ad hoc decisions made.

Additionally, Peel and Wilson (1998) assert that investment appraisal and planning positively impact on the performance of small businesses. The results of a study by Olawale *et al.* (2010) confirms that of Peel and Wilson (1998) who reports that the use of investment appraisal techniques has a positive impact on profitability. Besides, Frankly (2000) opines that the appraisal of new and existing capital investment projects is central to the success of small businesses.

Firm's Age and Performance

The amount of time that a business has been in operation affects its ability to grow (Hui *et al.* 2013; Mann & Sager, 2007). Age of a business is associated with the firm's risk of failure, which implies that younger firms

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are at a higher risk of failure than older ones. Age could actually help firms become more efficient (Martins, Ligthelm & Wijk, 2003). Hall (1995) argues that older firms would have more time to learn about their costs, and so will have more accurate estimates of their costs. Again, unpleasant surprises in their costs, and concomitant future output levels, will prove less likely as the firm gains in age.

Hui *et al.* (2013) examines the impact of firm age and size on the relationship among organizational innovation, learning, and performance among Asian Food Manufacturing Companies. Using a sample of 168 food manufacturing companies, the regression analysis revealed that firm age and size are two moderators which control the relationship among organizational innovation, learning, and performance. The findings apparently demonstrate that age enables firms to develop organizational routines to be able to perform their activities with more efficiency and better performance. However, younger companies suffer from missing consolidated routines meaning that innovation needs further attention and work from the organizational learning process.

In addition, Ericson and Pakes, (1995) argue that over time, firms discover what they are good at and learn how to do things better. They specialize and find ways to standardize, coordinate, and speed up their production processes, as well as to reduce costs and improve quality. In the same vein, the oldest firms are able to pay higher wages to their employees, indicating that older firms are in a better financial position to perform well.

Ha-Brookshire (2009) examines the relationship between firm entrepreneurship and various performance measures differ by firm size in

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SME business operations. Using a sample size of 154 apparel import intermediary (AII) SMEs in the United States apparel industry, the regression analysis revealed that firm entrepreneurship had a stronger and positive impact on longevity performance for smaller AIIs, while it had a weaker and negative impact on longevity performance for larger AIIs. It appeared that despite the fact that AIIs are small in terms of annual gross sales, smaller entrepreneurial AIIs seemed to achieve better longevity performance than larger entrepreneurial AIIs. These findings were consistent with the previous research on SMEs that smaller firms have more advantages with speed, flexibility, and niche-filling capabilities in the fast-changing and competitive market environment, and, thus, they survive longer than larger firms.

Summary of Empirical Review and Research Gap

Empirical literature relevant to the study has been reviewed in this chapter. The empirical review focused on previous studies on financial management practices. The review showed that financial management remains a major constraint to SMEs (Peacock, 1985, 2004; Irena, 2013; Agyei, 2014; Siaw, 2014). Most business development agenda emphasize need for effective management and one of the areas of management identified as having potential for survival and sustained equitable growth of business and non-profit organisation is proper financial management.

Many small and medium scale enterprises which are profitable are forced to cease their operations due to the inability to meet their short term debts obligations. The situation is not that they do not have funds to operate,

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but the problem is how they manage their finance especially, working capital (Marfo-Yiadom & Agyei, 2011; Pieterson, 2012) and quality record keeping (Peacock, 1988; Cordano, 1991; McCannon, 2002; Marfo-Yiadom, 2002; Carlon & Massey,2005) In discussing the rationale for quality record keeping practice, the literature pointed to the fact that, SMEs had poor quality of financial records, not infrequently they were satisfied with mental records. It was also noted that there was a positive relationship between quality of record keeping and performance (Musah & Ibrahim, 2014; Muchira, 2012; Esaete, 2005).

The literature review revealed that attempts have been made to address the issue of financial management among SMEs. However, most of the research works concentrate on capital structure (Marfo-Yiadom, 1996; Marfo-Yiadom, 2002; Abor & Biekpe, 2006; Marfo-Yiadom & Agyei, 2011; Agyei-Mensah, 2012; Pieterson, 2012) and most of the researches also do not establish the relationship between financial management practices and performance. Furthermore, none has investigated all the six financial management practices (financial records keeping, account receivable management, cash management, inventory management, account payable management and asset management) in one study.

In spite of the fact that previous researches have been undertaken, most were done on large firms (Zingales, 2000; Marfo-Yiadom, 2002). Besides a specific research examining the financial management practices and performance of small and medium enterprises in the Sekondi-Takoradi and in general Ghana, could not be found.

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These suggest that, there is limited empirical evidence on financial management and performance in Ghana. Accordingly, one motivation for undertaking this study is to fill the research gap in the area of SMEs financial management in developing countries in general and Ghana in particular by examining financial management practices and performance of small and medium scale enterprises. The small and medium enterprise sector has been chosen because they play a very significant role in the economy of Ghana. SMEs contribute about 70 per cent to Ghana's Gross Domestic Product and account for about 92 per cent of businesses in Ghana (Abor & Quartey, 2010).

Conceptual Framework of the Study

From the foregone, business performance which is the dependent variable can be influenced by financial records keeping, account receivable management, cash management, inventory management, account payable management and asset management as independent variables. Figure 1 depicts the model developed for the study and the relationship between the research variables.

Conceptual Framework of the Study

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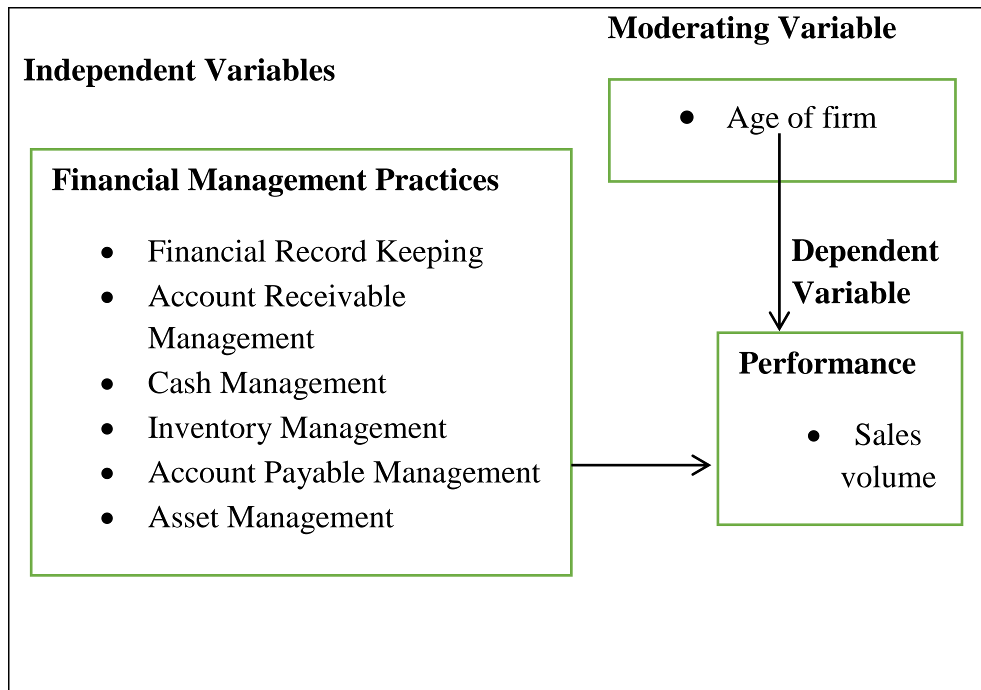

Source: Researcher's Construct, Nketsiah (2015)

Figure 1: Conceptual framework illustrating the relationship between FM practices and firm's age as moderating variable between FM practices and performance.

From Figure 1, there are six financial management practices that can affect business performance namely, financial records keeping, account receivable management, cash management, inventory management, account payable management and asset management. Firm's age (number of years of the business existence) is serving as a moderator variable on the effect of financial management practices and performance. All these variables have been discussed in the empirical review.

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CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

This chapter presents the methodology for the study. It starts with the various approaches that were followed to obtain data for the study and how the data obtained were analysed. It covers the research design, the targeted population and justification for the study site, sources of data, sampling procedures and the sample size, reconnaissance survey, the methods of data collection and analysis, pre-testing of the instruments, ethical issues as well as challenges encountered in the field and how they were addressed.

Study Design

Research may adopt quantitative, qualitative or mixed method design. Quantitative research is normally governed by hypotheses stated before the start of the investigation. In quantitative research, data are

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captured in numerical form and analysed quantitatively (Teddlie & Tashakkori, 2010). The philosophical foundation of quantitative design is grounded in the positivist epistemology, which places emphasis on quantification, objectivity and deductive logic (Tuli, 2010). Positivists believe that the social world is made up of facts which can be studied like the natural world and therefore advocate for the study of social behaviour using the logic and methods of the natural sciences.

One quality of the quantitative research, according to Creswell (2012), is the requirement that the sample used must reflect the attributes of the target population, which implies that in quantitative studies, representativeness is always crucial hence the use of strict probability sampling procedure in selecting the sample for the study. Tukahirwa (2011) had earlier maintained that a quantitative research design usually requires a relatively large sample size randomly selected for meaningful analysis and applicability of generalization of the findings to the entire population.

The principal assumption under quantitative research design is that the data is statistically, measurable (Ololube & Kpolovie, 2012). This means that it is applicable when the data can be quantified. Quantitative research design is therefore applicable to studies that lend themselves to quantitative analysis. An advantage of quantitative research is that it gives objective results as compared to qualitative design which can be value-laden (Kpolovie, 2010). Quantitative approach is an efficient method for gathering information, especially for large groups of people.

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A challenge of quantitative research design is that the researcher has to study a large sample to obtain reliable results (Easterby-Smith, Thorpe & Jackson, 2008). Another criticism levelled against quantitative study design is that social reality cannot be defined objectively (Tuli, 2010). Glesne (2011) adds that the overemphasis placed on quantitative measurement by positivists is unjustifiable for it cannot capture the real meaning of social behaviour, as it is in the case with qualitative research. Hence, quantitative research design was adopted.

The study adopted descriptive cross sectional survey to find out how the enterprises sampled employ financial management practices and to evaluate these practices on performance. The study is a survey in that the researcher relied on the data collected. A survey is a data collection tool used to gather information about individuals. In a survey, more often than not, focus is on factual information about individuals.

Descriptive cross sectional was chosen in view of the facts that, it is a small- scale study of relatively short duration and it involves a systematic collection and presentation of data to give a clear picture of a particular situation (Kothari, 2004). Descriptive cross sectional survey is appropriate because there is limited secondary data. The study aims at getting relevant information related to financial management practices and performance of small and medium enterprises in the Sekondi -Takoradi Metropolis. Creswell (2003) argues that a survey design is that which provides a quantitative or numerical description of some fraction of the population, which is the sample, through the data collection process of asking respondents questions and eliciting responses from them. This data collection, in turn, enables a

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researcher to generalise the findings from a sample of responses to a population.

A survey can be administered in a couple of different ways. In one method known as a structured interview, the researcher asks each participant the questions. In the other method known as a questionnaire, the participant fills out the survey on his or her own (Azorín & Cameron, 2010). In this research, the questionnaire type is used due to the following advantages: The use of questionnaires allow researchers to collect a large amount of data in a relatively short period of time; questionnaires are less expensive than many other data collection techniques (Creswell, 2010) and lastly, questionnaires can be used to collect information on a wide range of issues, including but not limited to issues relating to personal facts, work attitudes and opinions.

Nevertheless, a survey has some setbacks which impede the generalization of the research. The answer choices provided on a survey may not be an accurate reflection of how the participants truly feel. Also, while random sampling is generally used to select participants, response rates can prejudice the results of a survey. To overcome this major obstacle, surveys are generally standardized to ensure that they have reliability and validity. Standardization is also important so that the results can be generalized to the general population (Alise & Teddlie, 2010).

Empirical Model

In order to analyse the relationship between financial management practices and performance of SMES, this study used multiple linear regression model. It was preferred because it reveals statistical relationships between variables

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and can be used to predict or estimate the behaviour of variables (McCartney *et. al*. 2006).

To test the two hypothesis of this study the following regression model is used:

$$\text{Profitability} = \alpha + \beta_{1}.\text{INVENTORYMGT} + \varepsilon$$

This regression analysis model is adopted from the works of Deloof (2003), Padachi (2006) and Shin and Soenen (1998). However, Wambugu (2013) included other working capital variables such as account payable, cash and account receivables as well as growth in sales and growth in total assets as intervening variables to the model. That is,

$$\text{Profitability}_{i}\ (\text{Return on asset}) = \alpha + \beta_{1}.\text{CASHCONCYC}_{i} + \beta_{2}.\text{INVHOLDPER}_{i} + \beta_{3}.\ \text{ACCRECPER}_{i} + \beta_{4}.\text{ACCPAYPER}_{i} + \beta_{5}.\text{APPROACHWC}_{i} + \beta_{6}.\text{GWTSALES}_{i} + \beta_{7}.\text{GWTASSET}_{i} + \varepsilon_{i}$$

Borrowing from the works of Wambugu (2013), Padachi (2006), Deloof (2003) and Shin & Soenen (1998), this study, does a build up of the model to include other financial management practices such as financial records keeping (FINRECKEEP) and asset management (ASSET MGT). In addition, a moderating variable such as firm's age is also included in the model. The model thus becomes:

$$\text{Performance}_{i} = \alpha + \beta_{1}.\text{FINRECKEEP}_{i} + \beta_{2}.\text{ASSETMGT}_{i} + \beta_{3}.\text{ACRECMGT}_{i} + \beta_{4}.\text{ACCPAYMGT}_{i} + \beta_{5}.\text{CASHMGT}_{i} + \beta_{6}.\text{INVMGT}_{i} + \beta_{7}.\text{FIRMAGE}_{i} + (\beta_{8}.\text{FINRECKEEP}_{i}\ .\ \text{FIRMAGE}_{i}) + (\beta_{9}.\text{ASSETMGT}_{i}\ .\ \text{FIRMAGE}_{i}) +$$

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$(\beta_{10}.ACRECMGT_i \,.\, FIRMAGE_i) + (\beta_{11}.ACCPAYMGT_i.$ $FIRMAGE_i) + (\beta_{12}.CASHMGT_i \,.\, FIRMAGE_i) +$ $(\beta_{13}.INVMGT_i \,.\, FIRMAGE_i) + \varepsilon_i$

Target Population and Study Area

The target population for the study consists of registered SMEs in the Sekondi-Takoradi metropolis. However, not all the targeted population was accessible during the period of the data collection. This is because some of the owner managers were involved in other economic activities such as farming. The accessible population were SMEs who were sampled as undertaking their activities during the period of data collection.

The area selected for the study is the Sekondi-Takoradi Metropolis in the Western Region of Ghana which currently one of the five metropolises in Ghana. The population of the metropolis is 559,548 made up of 273,436 males and 286,112 females. The estimated annual population growth rate of the metropolis is 2.0 %. Among the 17 districts in the Western Region, the Sekondi-Takoradi Metropolis has the highest share of 23.5 percent of the population. The economic distributions are 63.6 % for economically active, 56.9% for employed, 6.7% for the unemployed and 36.4% for those not active. The employment distribution is as follows: 18.7% in the public

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government employment, 23.0% in the private formal employment and 56.3% in the private informal sector (GSS, 2010)

Any metropolis could have been chosen for this study because the thrust of the study is not peculiar to Sekondi-Takoradi. However, the choice of Sekondi-Takoradi Metropolis was informed by some reasons. The Sekondi-Takoradi Metropolis in which the regional capital is located is almost entirely urban (96.1%) and also the third largest city with a harbour. Notably, service and sales workers constitute the dominant occupational group (32.7%), while craft and related trades workers (22.2%) are the second largest. Females dominate the service and sales workers while males dominate plant and machine operators and assemblers, technicians and associate professionals, and professionals groups. Males have a slight edge over females in the skilled agricultural, forestry and fishery workers, and clerical support workers groups (GSS, June 2013).

Again, Sekondi-Takoradi is currently named the oil city of Ghana due to the discovery of oil in commercial quantity in the Region and has attracted unprecedented migration of people all over the world. Also, selection was based on the fact that it has a number of industrial units in the Western Region (GSS, June 2013). Most factories are located in the twin-city of Sekondi-Takoradi the industrial and commercial hub of the Region. The Metropolis is busy because of the Takoradi Harbour which serves as a major export centre for Ghana after the Tema Harbour. As a result of high export activities, many people migrate to the metropolis for equipment and this increase warranted the setting up of many SMEs in the metropolis such as the erection of kiosk and shops, containers, table top retail activities,

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trading in second-hand clothing, among others. Hence, the economic activity as a result of variation in business activities will help make meaningful statistical inferences.

Reconnaissance Survey

This was undertaken in July, 2014. The rationale was to enable the gathering of all the stakeholders in the study area and to brief them on the objectives of the study and how they would assist in the data collection process prior to the commencement of the actual data collection. It was also used to gather background information about the metropolis and to identify all the likely challenges that would possibly emerge during the data collection period. Places visited during this phase of the study were the offices of the Sekondi-Takoradi Metropolitan Assembly (STMA), NBSSI, Sekondi Takoradi Chamber of Commerce (CoC) and the Business Advisory Centre (BAC).

It was also meant to collate data on registered small scale businesses in the metropolis for sampling purposes. The survey revealed that it is impossible to compile a comprehensive list of the targeted respondents because a substantial proportion of the small scale business owners fail to register their businesses for fear of being taxed. However, the researcher relied on the data on registered SMEs provided by the NBSSI.

The reconnaissance survey revealed that, some owner managers engage in other economic activities to supplement their business (example, farming) and because of that may not be available during the period of the data

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collection. The researcher then decided to sample respondents from owner managers who will be physically present in the study sites during the period of the data collection.

Sampling technique and Sample size

As it was impossible to generate an accurate list of registered SMEs in the study area, the National Board for Small Scale Industries (NBSSI), an umbrella body formed to coordinate the activities of SMEs in the Sekondi-Takoradi metropolitan area, was approached for data on the sector. Registered members of the association therefore formed the population and the bulk of respondents for the study as almost all SMES in the study area are members of NBSSI. From the list of registered SMEs data obtained from the NBSSI, as at July, 2014, they numbered Seven Hundred and Sixty-two (762).

The names, phone numbers and exact locational addresses of registered enterprises in the Sekondi-Takoradi metropolis were given to the researcher by the National Board for Small Scale Industries (NBSSI). A simple random (table of random numbers) was used to select 200 enterprises (See Appendix A). Random numbers can be obtained using a calculator, a spreadsheet, printed tables of random numbers, or by the more traditional methods of drawing slips of paper from a hat, tossing coins or rolling dice. For the purpose of this study the random number tables was adopted. Simple random sampling helps ensure that each enterprise is given equal chance of being selected to represent the entire population, and is not biased or

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prejudiced toward any particular groups within the population. It also helps eliminate the tendency to select based on a basing factor (Cooper & Emory, 1995).

Based on a table provided by Bartlett, Kotrlik and Higgins (2001) on determining minimum returned sample size for a given population size for continuous and categorical data, the minimum sample size of a population of about 800 registered SMEs in the Sekondi-Takoradi metropolis requires a sample of about 166 registered SMEs. However, since the list of registered SMEs data obtained from the NBSSI, as at July, 2014, totalled Seven hundred and sixty-two (762), the researcher randomly selected 200 registered SMEs to cater for non response rate. Appendix B shows the sample determination table. The guide (sample determination table) gives sample sizes for various population sizes up to 10,000 at different confidence levels. The 200 registered SMEs selected is sufficient sample size accounting for about 26.2% of the total population of SMEs which have registered with NBSSI in the metropolis. This percentage was chosen because according to Cresswell, (2003) and Sekaran, (2003) the ideal sample size of 5-20% of a population is considered acceptable for most research purposes as it provides the ability to generalise for a population.

Data Collection Instrument

Only one type of instrument, that is, questionnaire was designed. The questionnaire target owner managers of SMEs in the study area. The items in the questionnaire were made up of both open-ended and close-ended items to allow for the elicitation of both specific and detailed responses.

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The development of the instruments was informed by the objectives of the study, research objectives, research/study design, as well as pertinent issues identified in the literature review. The instruments were designed to capture data on demographics of the respondents such as number of employees of the firm, educational qualification of respondents and the gender of the owner managers; financial management practices such as account receivable management, account payable management, cash management and inventory management practices. Other issues addressed by the instrument were based on financial records keeping and asset management of SMEs. In addition, the instrument was designed to elicit data on the estimated sales figures.

Data Collection Procedure

The main data for this study was primary data which was collected through a self-administered questionnaire. The data collection process began with a meeting with the management of the Sekondi-Takoradi office of National Board for Small Scale Industries (NBSSI) to brief the regional manager about the issues relating to the data collection and to seek approval to approach the SMEs registered with his outfit. After the approval, a meeting was held between the researcher and research assistants who are staff of the National Board for Small Scale Industries who were engaged to undertake the data collection.

The questionnaire was sent to the research assistants to go through on 29th April, 2015. On the 10th of May 2015, a training session on the objectives of the study, the content of the instruments, ethical matters,

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sampling and the data collection procedures to enable the research assistants in the data collection was held. The training was also meant to assist the research assistants to go through the questionnaire in order to clarify any question that was not clear to them. Once the exact location of the owner/ managers shop/business premises is located, permission was sought. Thereafter, the objectives of the study and the consent form were explained to the sampled respondents to assure them of their confidentiality before the instrument was administered. Introductory letter (Appendix D) from the Head of Accounting and Finance, School of Business, University of Cape Coast, was obtained and shown to the respondents.

The questionnaires were distributed to the respondents who are owner managers of SMEs selected for the study. Where respondents faced difficulty, the research assistants helped them to complete the questions. This facilitated completion of questionnaire and increased the response rate. The data collection process started on 15th May, 2015 and ended on 10th July, 2015.

Validity Testing

Healy and Perry (2000) explain that validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. It estimates how accurately the data obtained in the study represents a given variable or construct in the study (Mugenda & Mugenda, 2003). The study ensured construct validity by deriving the research variables from existing conceptual frameworks. To ensure content

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validity, the questionnaire was given to experts in the area of SMEs financial management to give their views and suggestions to improve the questionnaire. Through this process the appropriateness of the language used was checked in order that the owner managers understood the items on it. Again, certain wordings which were perceived to be ambiguous were also modified as well as checking the various items to ensure that the proposed study has been well conceptualized (Coughian, Cronin & Ryan, 2007) and the items really measured what they were intended to measure.

A pilot study was undertaken in March, 2015 before the main study. The pilot test was conducted in Cape Coast, in the Central Region of Ghana, using SMEs in the Cape Coast Metropolis. This is because SMEs in Cape Coast Metropolis have similar characteristics as those in Sekondi-Takoradi Metropolis. In all, a total of 40 SMEs representing 10 percent of SMEs in Cape Coast registered with NBSSI were used. As Jagongo (2009) argues, the pilot test helps to reveal if the questions are clearly phrased and words understood by the respondents; the questions are logically arranged; whether there is the need to clarify some items; and if the questions are relevant.

Reliability Testing

According to Darren and Mallery (2001), coefficient alpha is a measure of internal consistency. They however caution that the alpha value is inflated by a larger number of variables so there is no set interpretation as to what is acceptable.

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The reliabilities of the instrument were estimated using the Cronbach's Alpha to determine whether each item under the various subscales was related to each other after the pilot- testing exercise and again after the actual data collection for the studies. This is in line with Mugenda and Mugenda (2003) who recommend the use of internal consistency technique and the Cronbach's alpha method as a measure of reliability. During pilot- testing exercise, the scale reliability test showed a Cronbach's Alpha of 0.926 based on 42 standardised items for the six subscales on the questionnaire.

As a general rule, a coefficient greater than or equal to 0.5 is considered acceptable and a good indication of construct reliability (Ampiah, 2006; Van Saane, Sluiter, Verbeek & Frings-Dresen, 2003; Lloyd, Streiner & Shannon, 1998). However, Nunnally (1978) and Dei-Mensah, (2014) posit that 0.70 or higher is considered "acceptable" in most social science research situations. Sekaran (2003) also argue that a rule of thumb that applies to most situations is given as:

$\alpha \geq 0.9$ –excellent

$\alpha \geq 0.8$ – good

$\alpha \geq 0.7$ – acceptable

$\alpha \leq 0.6$ – questionable

$\alpha \leq .5$ – poor / unacceptable

Hence, in this study the Cronbach alpha coefficient values ranged from a low of .817 to a high of .973 with an overall Cronbach alpha coefficient value of .971. Thus with regard to the individual items in Table 1 a Cronbach alpha value of 0.971 suggests that the instruments used are valid

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and of a high degree of reliability. Table 1 shows the summary of the reliability test.

Table 1: Summary of Reliability Estimates

Subscale	Reliability Estimate	No. of Items	Quality
Financial Records Keeping	0.964	9	Excellent
Account Receivable Management	0.834	10	Good
Account Payable Management	0.973	4	Excellent
Cash Management	0.947	7	Excellent
Inventory Management	0.911	9	Excellent
Asset Management	0.817	6	Good
Total	0.971	45	Excellent

Source: Field survey, Nketsiah (2015)

Operationalization and Measurement of Variables

This section describes the criteria used to operationalize variables in this study as well as the measures used in their assessment. These variables comprise sales volume, financial records keeping, account receivable management, cash management, inventory management, account payable management, asset management and firm’s age. Table 2 lists the different

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variables, their operational definitions, how each is measured and the question(s) that are used to measure them.

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Table 2: Measurement and Operationalization of Variables

Variable	Nature	Operationalization	Measurement	Question Number
Sales volume	Dependent Variable	The amount realised from the sale of goods or rendering of services by owner mangers of SMEs in the normal operations of business in a specific period.	2 Items: Sales revenue / turnover	Q7 & Q44
Age	Moderating variable	The number of years the firm has been in existence.	Years	Q5
Financial record keeping	Independent Variable	This is the practice of maintaining and monitoring the history of financial activities by owner managers of SMEs.	9 Items: Yes & No questions.	Q1-Q9
Account Receivable management	Independent Variable	The practice of receivable management practices in the firm‘s operations. That is, management of credit owner/ manager of SMEs grant its customers when goods are sold or services are rendered.	10 Items: Yes & No questions.	Q10a-Q13e
Cash Management	Independent Variable	Cash management is about managing cash on hand in order to ensure a firm's financial stability and solvency.	9 Items: Yes & No questions.	Q14- Q22

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Inventory management	Independent Variable	Activities employed by owner/ manager of SMEs in maintaining the stock of any item or resource used in an organisation in order to provide uninterrupted production, sales, and/or customer-service.	9 Items: Yes & No questions.	Q23-Q31
Account Payable Management	Independent Variable	Involves how owner managers of SMEs manage monies owed to suppliers for products and services purchased on credit.	4 Items: Yes & No questions.	Q33-Q36
Asset Management	Independent Variable	Involves how owner managers of SMEs invest their short term funds in order to help the businesses stay afloat financially.	6 Items: Yes & No questions.	Q37-Q43

Source: Researcher's Construct, Nketsiah (2015)

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Measuring Performance

Performance measures could include traditional accounting measures such as sales growth, market share, and profitability. In addition, factors such as overall satisfaction and nonfinancial goals of the owners are also very important in evaluating performance, especially among SMEs. This is consistent with the view of Wanjoi (2008) that both financial and non-financial measures should be used to assess organisational performance. The significant differences in the structure and philosophy of SMEs indicate a need to assess the performance of SMEs differently from large firms. The resource limitations associated with SMEs indicate that the dimensions of quality and time are critical to ensure that waste levels are kept low, and that a high level of productivity performance is attained. Similarly, the reliance on a small number of customers suggests that to remain competitive, SMEs must ensure that customer satisfaction remains high and that they can be flexible enough to respond rapidly to changes in the market.

Cohen (2009) declares that there are four main approaches to measure the performance of organisations. These are the goal approach, system resource approach, stakeholder approach and competitive value approach. The goal approach measures the extent an organization attains its goals while the system resource approach assesses the ability of an organization obtaining its resources. For the stakeholder approach and the competitive value approach, these evaluate performance of an organization based on its ability to meet the needs and expectations of the external stakeholders including the customers, suppliers, competitors. Among these,

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goal approach is most commonly used method due to its simplicity, understandability and internally focused. Information is easily accessible by the owner managers for the evaluation process. The goal approach is a better fit for the SMEs where targets are being set internally based on the owners-managers' interests and capability to achieve.

According to Raheman (2009), the goal approach directs the owners-managers to focus their attentions on the financial (objective) and non-financial measures (subjective). Financial measures include profits, revenues, returns on investment (ROI), returns on sales and returns on equity, sales growth, and profitability growth. Non-financial measures include overall performance of the firm relative to competitors, employment of additional employees, customer satisfaction, employee satisfaction, customer loyalty, brand awareness and owner's satisfaction which way the business is progressing. Atieno (2009) notes that financial measures are objective, simple and easy to understand and compute. However, financial measures suffer from being historical and are not readily available in the public domain especially for SMEs. Profitability is one of the most important objectives of financial management because one goal of financial management is to maximize the owner's wealth (McMahon, 2011).

Thus, profitability is very important in determining the success or failure of a business. At the establishment stage, a business may not be profitable because of investment and expenses for establishing the business. When the business becomes mature, profits have to be produced. Due to the importance of profitability, Emory (2009) among other researchers have suggested that small firms need to concentrate on profitability. Mona (2012)

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found profitability to be a significant determinant of a small firm's credit risk. Holmes (2008) stress the aim of a business is not only the generation of sales, but also generation of profits. Profit is especially important because it is necessary for the survival of a business. Firms use financial information developed by accountants to support decisions. For example, the historical revenue and cost information can be used for budgeting decisions. The marketing managers can use sales information to evaluate the impact of a particular promotion strategy while the same sales information can be used by production manager to determine the future production levels. Income statements are very useful in measuring financial performance where many kinds of ratio analysis can be calculated (Mathuva, 2009).

One of the indicators used to determine the performance of an enterprise is its turnover/ sales volume (Panigrahi, 2013). This was used because SMEs sampled do not keep records of assets and liabilities in order to use other performance measures such as Return on Asset and or Return on Equity. The survey revealed that weekly turnover ranged from about two hundred Ghana cedis (GHS 200) to Eight Thousand Ghana cedis (GHS 8,000). Assuming a 52- week year cycle, it means sales volume / turnover ranged from ten thousand and four hundred Ghana cedis (GHS 10, 400) to four hundred and sixteen thousand Ghana cedis (GHS 416,000). This confirms the small and medium nature of the businesses surveyed according to Mensah (2004). However, it is worth noting that, the estimation of sales is usually a problem when no proper records are kept. Marfo-Yiadom and Agyei, (2011) and Garlick (1971) reported in a study of traders in Ghana that many traders gave figures from memory. Some with less adequate (or non-

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existent) account books could give only daily and monthly estimates of in-season and out- of- season sales. This situation has not changed much. The record keeping is generally poor and thus one can only rely on the recent memories of the traders to estimate the level of sales.

Data Analysis

This section dealt with the process of transferring raw data from the field to make meaningful conclusions. The data collected using the questionnaire was edited and cleaned after the data had been collected to ensure accuracy and consistency of the responses. The cleaning was done by working on omissions and incomplete data if any, as well as checked the reliability and validity of data. Data collected was also coded into logical, descriptive, and meaningful categories to provide a framework for analysis. The raw data collected was analysed using the Statistical Product for Service Solutions (SPSS version 21) software, which has facilities for descriptive and inferential statistics. Descriptive statistics such as frequencies and percentages to facilitate the change of raw data into a form that enabled understanding and interpretation in relation to the research questions were used.

Also, inferential statistics such as Factor analysis employing the principal component analysis (PCA) technique was used to identify the most significant Financial Management (FM) practices (See Appendix E-Output for Principal Component Analysis). Multiple linear regression model was developed and tested to explain the association between SMEs performance

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and the various financial management practices variables (i.e. financial records keeping, account receivable management, cash management, inventory management, account payable management and asset management) as indicated in the conceptual framework. McCartney *et. al.,* (2006) posits that multiple regression analysis is useful in determining whether or not a particular effect is present, in measuring the magnitude of a particular effect and in forecasting what would be of a particular effect.

Table 3 summarizes the data analysis techniques that were used in the study.

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Table 3: Data Analysis Techniques

Research Objectives	Data Requirements and Statistical Approach
Objective 1 Determine the effect of FM practices on performance.	**Hypothesis 1:** There is no significant association between FM practices and performance (sales volume) of SMEs in Sekondi-Takoradi Metropolis. • Inferential Statistics • multiple linear regression model $H\ 0_1: \beta i = 0$ $H\ 0_1: \beta i \neq 0$ Reject $H0_1$ if $p < 0.05$, otherwise fail to reject the $H0_1$
Objective 2 Establish the moderating effect of firm age on the relationship between financial management practices and performance of SMEs in Sekondi-Takoradi.	**Hypothesis 2**: Firm age does not have a moderating effect on the association between FM practices and performance in the SMEs sector in Ghana. • Inferential Statistics • Hierarchical multiple linear regression model $H\ 0_2: \beta i = 0$ $H\ 0_2: \beta i \neq 0$ Reject $H0_2$ if $p < 0.05$, otherwise fail to reject the $H0_2$

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Objective 3 Determine the extent of financial management practices in SMEs in the Sekondi-Takoradi Metropolis.	• Yes / No questions (a more **Yes** indicates a good system) • Questions 1-43 • Descriptive Statistics (Frequency, Percentage, Mean)
Objective 4 Examine strategies adopted by owner managers in managing the components of working capital.	• Yes / No questions • Questions 10-36 • Descriptive Statistics (Frequency, Percentage, Mean)

Source: Researcher's Construct, Nketsiah (2015)

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Ethical considerations

The purpose of the study was explained to each participant and they were made aware that they are free to refuse to respond to any item that they are not comfortable with. Consent was obtained from each participant in the study. In this respect, owner managers of SMEs were asked to append their signatures or thumbprints on a consent form or give verbal consent to participate. Participants were assured of the confidentiality of information that they will provide.

Field Challenges /Risk

The main challenge encountered by the researcher was uncooperative attitudes on the part of some respondents owing largely to their tight schedules and their quest to meet customer's demands amidst the frequent unannounced power outage ('dumsor'). Other owner/managers uncooperative attitude was due to their priority for other engagements. Though appointment was booked with prospective respondents during the reconnaissance visits, their priorities for other engagements prevented some from participating or fully participating in the survey. To overcome this challenge, the researcher did put forth the effort to educate respondents on the essence and overriding importance of the research beforehand. Again, time was booked with the some of the respondents at their convenient time for the data to be collected via telephone call.

Additionally, through an introductory letter to the National Board for Small Scale Industries regional office in Sekondi, prior telephone calls to the target participants was also made before the research assistants approach the

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sampled respondent in question. Experiences with similar assignments has shown that in some cases the respondents were too busy going about their routine work some of which were not sedentary in nature (i.e. they need to move about or round to do the work). In such situations, the researcher used *accompanied walk* to collect the data. It means that the data gathering staff moved along with the respondent to administer the instrument.The researcher on its part did approach this component of the assignment with a high sense of professionalism through monitoring and actually taking part in the data collection exercise. This was done in order to achieve an optimum data collection.

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CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents the analysis of data obtained on 147 owner managers of small and medium enterprises in the Sekondi-Takoradi Metropolis. Issues discussed are the response rate, socio-demographic characteristics of respondents, effect of financial management practices on performance and working capital management strategies. The moderating effect of firm's age is also analysed. The chapter also presents the result of the multiple linear regression model used to test the hypotheses of the study.

Response Rate

A total of 147 completed questionnaires were collected out of the 200 that were distributed, yielding a 73.5 percent response rate. These consisted of 133 small scale enterprises and 14 medium scale enterprises. The response rate of 73.5 percent was found to be above the acceptable range for such a survey and was deemed acceptable for making statistical inferences from SMEs in Sekondi-Takoradi Metropolis.

Entrepreneur Characteristics

Descriptive statistics relating to the socio-demographic characteristics of respondents are presented in Table 4 and 5.

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Majority of the owner managers in the study were males 78 (53.1%). Females constituted 69 (46.9%) of the entrepreneurs in the study. This is perhaps due to the fact that most of the entrepreneurs are in the manufacturing industry (45.6%) which is male dominated. Females are usually interested in the other sectors like service and commerce industries (Siaw, 2014). This is substantiated by the fact that, females dominated sectors such as hairstyling (6.8%) as against 3.4% for males; trading (15.6%) as against 10.2% for males and tailoring/dressmaking 13.6% females and 4.8% males.

ion effect taking cognizance of the role of primary evidence in this all-important study.

Table 4: Gender of Owner Managers and Nature of Enterprise

		Nature of Enterprise				Total
		Manu facturing	Hairstyl ing	Retailing	Dress making	
Gender	Male	51	5	15	7	78
	Fe male	16	10	23	20	69
Total		67	15	38	27	147

Source: Field survey, Nketsiah (2015)

Table 5 shows the different educational levels of the entrepreneurs surveyed. A small percentage of the respondents had tertiary educational qualification (8.8%) while 36.1 percent had a secondary school qualification.

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One firm characteristic that has been found to influence performance of SMEs is the age of the firm. Experience can be measured through the number of years a person had managed a business. Table 5 shows that the age of SMEs in the study ranged from one year to 15 years and above. It can be observed that most of the firms in the study 80 (54.40%) fell within the 11-15 year group. The second largest group of firms in terms of age was those which were established 6 to 10 years ago (37.40%). This implies that entrepreneurs in the study had experience in terms of the number of years they had managed a firm as majority (91.80%) of them had managed their businesses for 6 years or more.

The size of the firm was measured according to the total number of employees of the firm. Table 5 shows that majority of the firms in the study according to Ghana Statistical Service classification of SMEs were small scale enterprises which employ up to 9 people (90.50%). This is followed by medium and large-sized enterprise which constituted 9.50 percent of the respondents.

Table 5: Other Socio-demographic Characteristics of Respondents

Socio-demographic Characteristic		**Frequency**	**Percent**
Level of education	Never been to school	15	10.2
	Basic	66	44.9
	Secondary	53	36.1

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	Tertiary	13	8.8
	Total	**147**	**100.0**
Age of firm	1 – 5 years	3	2.0
	6-10 years	55	37.4
	11-15 years	80	54.4
	Above 15 years	9	6.1
	Total	**147**	**100**
Number of Employees	0 – 5 employees	97	66.0
	6 – 9 employees	36	24.5
	10 – 14 employees	14	9.50
	Total	**147**	**100**

Source: Field survey, Nketsiah (2015)

Effects of Financial Management Practices on Performance.

In order to test the effect of financial management practices on SMEs performance and the moderating effect of firm's age on SMEs performance, multiple linear regression analysis was utilised. Table 6 presents the results of two multiple linear regression models. In the first model, the FM practices

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together with the moderating variable (firm's age) were entered. In the second model, the interaction effect of the moderating variable (firm's age) was assessed. The output comprises of *beta*, *t* value, the R Square, Adjusted *R Square change, F statistics* and the significance value (*P*-value).

Table 6 (Model 1 column-results for objective 1) shows that cash management (p=0.001, β= 0.280) has a statistically significant association with SMEs performance (sales volume). The positive significant relationship between cash management practices and the performance of SMEs of Sekondi-Takoradi metropolis implies that good cash management practice that ensures that customers are given rebates in the form of cash discounts will induce them to purchase more, hence, increasing the firm's sales volume. This positive relationship is consistent with the findings of Lazaridis and Tryfonidis (2006) who report statistical significant positive relationship between profitability, measured through gross operating profit and the cash conversion cycle. Arihoona (2011) who examines cash management and growth of small scale businesses in Ntungamo market in Kampala also reports a positive significant relationship between cash management and growth of small scale businesses.

Furthermore, Table 6 (Model 1 column- results for objective 1) shows that asset management (p=0.020, β= 0.251) has a statistically significant association with SMEs performance (sales volume). The positive significant relationship means that the appraisal of new and existing capital investment projects enables firms embarks on investments that have potential to increase sales volume. Again, effective asset management decisions can positively affect SMEs performance. This is due to the fact

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that, effective asset allocation will ensure that asset are allocated to areas possible to yield positive returns in terms of sales. This confirms the findings of Peel and Bridge (1998) and Olawale *et al.* (2010) who report that the use of investment appraisal techniques has a positive impact on profitability.

Table 6: Regression Analysis Model

Variables	**Standardized Coefficients**			
	Model 1		**Interaction Model**	
	Beta	Sig.	Beta	Sig.
1 Constant		.000		.000
Financial Records-keeping Practices	-.176	.193	-.226	.057
Account Receivable Management Practices	.175	.105	.316	.001
Cash Management Practices	.280	.001	.118	.114
Inventory Management. Practices	.042	.742	.220	.057
Account Payable Management Practices	.171	.148	.113	.276
Asset Management Practices	.251	.020	.024	.810
Firm's Age	.501	.000	.550	.000
Financial Records-keeping Practices x Firm's age			-.280	.028

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Account Receivable Management Practices x Firm's age	.268	.000
Cash Management Practices x Firm's age	.042	.620
Inventory Management Practices x Firm's age	.387	.000
Account Payable Management Practices x Firm's age	-.095	.324
Asset Management Practices x Firm's age	.333	.000
Dependent Variable: Sales volume		

Adjusted R^2 =.220	R Square Change = 0.252
F Statistics (*6,132*) = 7.492	F Statistics (*7,131*) = 18.857
$P < 0.005$	$P < 0.005$
Number of observations (N) = 147	

Source: Field survey, Nketsiah (2015)

Age Effect

Hierarchical multiple linear regression analysis was used to determine interaction. Fazier *et al.* (2004) and MacKinnon (2000) advocate the use of regression analysis in testing interaction effects. Frazier and Barron (2004) define a moderator as a mechanism through which a predictor

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influences an outcome variable. In the context of this study, firm's age is moderating by virtue of their intervening effect on the relationship between financial management practices and performance of SMEs. Consequently, the study used hierarchical multiple linear regression analysis using the SPSS test for moderation.

The results in Table 6 (Interaction model- results for objective 2) indicate that firm's age significantly interact the relationship between financial management practices and performance (sales volume) of SMEs in Sekondi-Takoradi metropolis. The interaction model as a whole is significant {F (7,131) =18.857, p<0.005}.

Furthermore, it was hypothesized that firm's age does not moderate the effect of the FM practices and SMEs performance. From Table 6, results of the interaction model established significant contribution of firm's age (β= 0.550; p= 0.000) to the model as the products of the FM practices and SMEs performance. This means the effects of the FM practices on SMEs performance depend on the age of the firm. Thus FM practices as well as firm's age play important role in SMEs performance. Therefore firm's age can indeed interfere with the interaction between FM practice and SMEs performance. This is because over time, firms discover what they are good at and learn how to do things better by specializing, develop organizational routines and find ways to standardize, coordinate, and speed up their production processes, as well as to reduce costs and improve quality (Hui *et al.* 2013). Again, over time, older firms would have more time to learn about their costs, and so will have more accurate estimates of their costs. As a result, unpleasant surprises in their costs will be minimised. Hence, evidence

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of firm's age as an interaction factor on the relationship between FM practices and SMEs performance has been established.

The coefficients in Table 6 (interaction model) shows that inventory management practices (β= 0.387, p=0.000), asset management practices (β= 0.333, p=0.000) and account receivable management practices (β= 0.268, p=0.000) make statistically significant contribution in explaining the relationship between FM practices and performance when firm's age is taken as moderating variable. This positive association between receivables management and SMEs performance when firm's age is taken as moderating variable implies that when businesses institute stringent credit policy which only offers credit to credit worthy customers, overtime it may reduce the level of creditors, thus ensuring that the business has available cash to run its activities which may lead to increased sales._This positive association between account receivable management practice and sales volume is consistent with the findings of Pedro and Pedro (2008).

Additionally, the positive relationship between inventory management and performance of SMEs of Sekondi-Takoradi metropolis means that with time firms that employ efficient inventory management practices can reduce inventory to an optimal level which has positive effect on production and sales. Similarly, increasing the inventory conversion period could lead to a decrease in stock out costs of inventory which results in enhancing sales opportunities and consequently leads to good performance (Deloof, 2003). Additionally, frequently keeping too little inventories as a result of inefficient and careless management practices and procedures might also lead to the interruption of operation in manufacturing,

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increasing the possibility of sale loss and consequently lower the profitability of the firms (Panigrahi, 2013) Studies such as Panigrahi (2013), Dimitrios (2008), Singh (2008) and Deloof, 2003 confirms this results.

The results of the hypotheses tests were summarized on the basis of the objectives 1 and 2 of this study. Table 7 summarizes the results and effect of the hypothesis test.

Table 7: Summary of Hypotheses Test

	Hypothesis	Results	Decision
H_{01}	There is no relation between Financial record keeping practices and SMEs performance	β = -0.176 P = 0.193	Failed to reject
	There is no relation between Account receivable management practices and SMEs performance	β = 0.175 P = 0.105	Failed to reject
	There is no relation between Account payable management practices and SMEs performance	β = 0.171 P = 0.148	Failed to reject

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	There is no relation between Inventory management practices and SMEs performance	$\beta = 0.042$ $P = 0.742$	Failed to reject
	There is no relation between Cash management practices and SMEs performance	$\beta = 0.280$ $P < 0.001$	Rejected
	There is no relation between Asset management practices and SMEs performance	$\beta = 0.251$ $P = 0.020$	Rejected
H_{02}	Firm's age does not have a moderating effect on the relationship between Financial records keeping practices and SMEs performance	$\beta = -0.280$ $P = 0.028$	Failed to reject
	Firm's age does not have a moderating effect on the relationship between Account receivable management practices and SMEs performance	$\beta = 0.268$ $P = 0.000$	Rejected
	Firm's age does not have a moderating effect on the relationship between Cash management practices and SMEs performance	$\beta = 0.042$ $P = 0.620$	Failed to reject
	Firm's age does not have a moderating effect on the relationship between	$\beta = 0.387$ $P = 0.000$	Rejected

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Inventory management practices and SMEs performance		
Firm's age does not have a moderating effect on the relationship between Account payable management practices and SMEs performance	β = -0.095 P = 0.324	Failed to reject
Firm's age does not have a moderating effect on the relationship between Asset management practices and SMEs performance	β = 0.333 P = 0.000	Rejected

Source: Field survey, Nketsiah (2015)

Extent of Financial Management Practices

In order to determine the extent of financial management practices among SMEs, the responses that were obtained from the data collection process were coded 'Yes' and 'No'. A more '**Yes**' indicates a good system and vice versa. The discussion is based on Yes/No as proportion of total expected Yes/No responses for the various financial management practices.

Extent of Financial Records Keeping Practices

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The owner managers were requested to indicate their agreement or otherwise to questions on the extent to which financial records keeping were practiced.

From Table 8, the results indicate that 72.3 percent of SMEs in Sekondi-Takoradi metropolis keep financial records. The results support findings of Pieterson (2012) who investigated working capital management practices of selected SMEs in the Sekondi- Takoradi Metropolis. Pieterson (2012) reports that 79.9% of SMEs kept financial records. Similarly, Musah and Ibrahim (2014) who investigates the relationships between record keeping and business performance among SMEs in the Tamale Metropolis of Ghana reported that about 65% of the SMEs keep records to monitor and keep track of the progress of their businesses.

This may be due to the fact that, majority of the owner managers (89.8%) have from basic to tertiary level qualification. Educational background of owner managers is one of the factors that influences record keeping (Mairura, 2011; Esaete, 2005).

Table 8: Extent of Financial records keeping Practices

Statement	Yes %	No %
the business keeps financial records of the operations	76.4	23.1
every transaction of the business is recorded	68.1	31.9
records of all sales are kept	75.7	24.3
records of customer's indebtedness is kept	84.7	15.3

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there is records of all cash transactions	72.9	27.1
records of inventory are kept	63.2	36.8
The business keeps records of all purchases	75.0	25.0
the business keep records of all purchases on credit	80.6	19.4
financial records have details such as date, name, contact, amount involved, etc	78.5	21.5
the business keeps asset register	47.6	52.4
Average Percentage	**72.3**	**27.7**

Source: Field survey, Nketsiah (2015)

Furthermore, respondents were asked to choose types of financial records they keep from a given list. The results from Table 8 shows that records on cash transactions ranked highest with 97.9 percent and the records of customers indebtedness ranked second with 82.9 percent. The least records kept is the asset register with 47.6 percent. It is noteworthy that majority of SMEs keep records relating cash and customers indebtedness.

In the metropolis, the discovery of oil in commercial quantity in the region has attracted unprecedented migration of people all over the world and so business is brisk, bringing in its wake a huge demand for goods and services on both cash and credit terms. Personal relationships are also very high in the Metropolis further suggesting that many transactions might have been conducted on credit terms (Pieterson, 2012). It therefore makes commercial sense to keep these transactions at the forefront of memory. In this regard, the cash book and the sales ledger come in handy. Besides, going by the general perception that record keeping might well provide easier routes for tax collection (Evans, Carlon & Massey, 2005) some owner

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managers might be keen to avoid this altogether. Hence, failure of 25.9% of SMEs to record sales of their transactions.

The results from Table 8 further shows that, financial records kept by 78 percent of SMEs in Sekondi-Takoradi have essential details such as date, name, contact, amount involved and so on. Proper financial records must have all specific details to enable owner managers of SMEs to prepare income statement showing clearly the sales income received, the expenses paid, and the actual profit/ loss made (Muchira, 2012; Butler, 2009)

Extent of Accounts Receivable Management Practices

The owner managers were requested to indicate their agreement or otherwise to questions on the extent to which management of accounts receivable were practiced. The results from Table 9 show that 70.9 percent of SMEs in Sekondi-Takoradi metropolis practice receivable management.

Table 9: Extent of Accounts Receivable Management Practices

Statement	**Yes %**	**No %**
sometimes sell on credit	99.3	0.70
undertakes credit investigation	81.9	18.1
checks customers past records from other business firms	62.5	37.5
checks customers past financial dealing with the company	72.2	27.8
checks the nature of inventory / service	77.4	22.6
gives cash discount to customers	61.5	38.5
embarks on personal visits	63.6	36.4

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reminds debtors through phones calls	92.3	7.7
request previous debt to be paid before additional credit is given	86.0	14.0
uses the police to collect their cash from credit customers	12.5	87.5
Average Percentage	**70.9**	**29.1**

Source: Field survey, Nketsiah (2015)

Accounts Receivable Management Strategies

From Table 9 majority of SMEs (99.3%) sometimes sold their goods on credit. Firms provide trade credit as a marketing strategy to expand or maintain sales (Pedro & Pedro, 2008; Pandey, 2004). This is in line with Siaw (2014) and Joshi (2000) postulation that the primary objective of investment in trade debtor is to increase profit by expanding sales to attract new customers and retain old ones as well as to enhance the business competitive advantage. By so doing, sales and profits increase, which provides the leeway for a business to carve out a bigger niche in the market and to elevate its status among competitors.

Of the 99.3% entrepreneurs who sell goods on credit, 81.9 % undertakes formal credit investigations before granting credit to their customers. However, 18.1% never undertook such investigations. This is presumably done to assess the credit worthiness of their customers. These procedures includes conducting investigations on customers' past records from other business firms, checking their past financial dealings with their industries and checking their nature of inventory.

The results from Table 9 further revealed that SMEs in Sekondi-Takoradi metropolis have strategies in place for debt collection. Collection

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efforts consist of the methods a business employs in attempting to collect payment of past-due accounts. Some commonly used methods include offering cash discount to their customers (61.5%) telephone calls (92.3%) and visiting customers (63.6%) in an effort to obtain payment. Few SMEs (12.5%) however, engage the services of the police to retrieve their money from slow paying customers. The implication of these strategies and policies put in place is that this reduces expenses in form of bad debts which increases the sales volume of the SMEs.

Extent of Cash Management Practices

The owner managers were requested to indicate their agreement or otherwise to questions on the extent to which cash management was practiced. Table 10 shows the extent of cash management practices.

From Table 10, the results indicate that 67.4 percent of SMEs in Sekondi-Takoradi metropolis practice cash management. These findings, notwithstanding, contradict that of Attom (2013) who reports a very disturbing state of affairs with respect to cash management practices by micro and small-scale enterprises in Kasoa. His findings showed that majority (77.8%) of SMEs do not have any cash control procedures in place and only a few SME operators (22%) who had in place some form of cash control procedures adhered to them.

Table 10: Extent of Cash Management Practices

Statement	Yes	No

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The business:	%	%
records all cash transactions	74.1	25.9
keeps track of all cash receipts	78.4	21.6
keeps track of all cash payments	85.6	14.4
has its own bank account	77.0	23.0
saves with a financial institution	74.5	25.5
prepares budget	75.5	24.5
reviews its budget	71.9	28.1
spend within budget	44.6	55.4
do monthly reconciliation of cash book with bank	25.2	74.8
Average Percentage	**67.4**	**32.6**

Source: Field survey, Nketsiah (2015)

Cash Management Strategies

Firms that devote particular attention to sound cash management system always ensure that enough cash is available to meet up-coming expenses and other liability payments and that even in a period where their cash inflows cannot sustain their outflows, strategies are formulated in advance to deal with such situation before they even come up (Attom, 2013).

Table 10 indicates that, keeping track of cash payments is one of the key cash management strategies adopted by 85.6% of the 147 SMEs in Sekondi-Takoradi. This is very encouraging because cash payments are considered as key issue that affects the cash position of SMEs. Keeping track

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of cash payments is crucial in ensuring that the businesses have sufficient cash balances (Marfo-Yiadom & Agyei, 2011). Cash payments must also be controlled through proper monitoring to control cash outflows. Cash payments by SMEs should be streamlined in order to ensure that these small businesses that continually face financial challenges are saved from this situation (Siaw, 2014)

Additionally, the results in Table 10 show that SMEs keep track of cash receipts as a strategy for managing cash. 78.4% of SMEs indicated that they keep track of their cash receipts. This makes them unsusceptible to the risk of misappropriation of funds (Attom, 2013). Cash receipts of these enterprises basically originate from the sale of goods and services. Cash receipts should be monitored with high degree of precision in order to predict accurately the cash balances over time. Again, 61.5 percent of the SMEs investigated have instituted cash discount to improve on-the-spot cash payment for goods and services in order to enhance the cash receipt level.

Furthermore, cash budget is an important tool to track cash receipts and payments by SMEs in order to ascertain their cash position (Siaw, 2014; Marfo-Yiadom, 2009; Brigham & Houston, 1999), whether favourable (surplus) or unfavourable (deficit). The knowledge of SMEs cash position ensure judicious use of cash and also to map out strategies to obtain sufficient cash at all times to facilitate continuous business operations. Respondents were asked to indicate whether they prepared cash budget to help in tracking receipts and payments of cash. From Table 10, 75.5 percent of SMEs prepares cash budget. This provides a means of keeping track of cash inflows and outflows. This results contradict Attom (2013) who reports that 21.40

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percent of SMEs prepares cash budget. Furthermore, results from Table 10 shows that 74.8% do not do reconciliation of cash book balances with that of the bank. This may possibly cause SMEs to face unrelenting problem of volatile cash balances.

Also, cash management practices can be enhanced by operating a bank account. A business's bank account helps it to keep track of business transactions and also ensures the security of its funds. This study explored the banking experience of owner managers of SMEs. Given the role financial institutions play in the development of SMEs and the number of financial institutions operating in the study area, the respondents were asked to indicate whether they save with a financial institution and have a bank account for the business. From Table 10, 77 and 74.5 percent respectively responded in the affirmative. The implication of this is that it can spare these SMEs the risk of armed-robbery attacks and also fire outbreaks.

Extent of Inventory Management Practices

The owner managers were requested to indicate their agreement or otherwise to questions on the extent to which inventory management was practiced. Table 11 shows the extent of inventory management practices.

The results in Table 11 revealed that 59.5 percent of SMEs in Sekondi-Takoradi metropolis practice inventory management. This finding is consistent with Basil (2005) that quite a sizable number of SMEs practice inventory management.

Table 11: Extent of Inventory Management Practices

Statement

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The business:	Yes %	No %
keeps records of all inventory	73.6	26.4
undertakes monthly stock taking of inventories	59.3	40.7
uses computer assisted software in recording inventory	34.8	65.2
determines inventory level based not on personal experience	62.1	37.9
undertakes occasional surprise counts	72.9	27.1
reviews inventory levels	63.6	36.4
uses notebooks as source of stock taking records	75.7	24.3
physically safeguards inventory against fire and theft	50.0	50.0
has specific order cycle delivery time for every inventory	43.3	56.7
Average Percentage	**59.5**	**40.5**

Source: Field survey, Nketsiah (2015)

Inventory Management Strategies

Putting in place inventory control mechanisms is one sure way of preventing SMEs over stocking or under stocking (Clodfelter, 2003). The results in Table 11 show that 73.6% of SMEs keep records of all inventories. The results further revealed that 72.9% of owner managers undertake occasional surprise counts of inventories by employing the use of notebooks (75.7%) as a source of recording stock taking. Notwithstanding, few SMEs use computer assisted software such as Microsoft excel and Tally accounting in recording inventories. What this implies is that, 65.2% of SMEs are deficient using computer assisted programs to keep records of inventory in this technological growing era. Similarly, the results showed that averagely there are low safeguards of inventory against fire (50%) thereby putting the inventory of the businesses at risk in case of fire outbreak and theft.

Additionally, although 63.6 percent of SMEs review inventories as a strategy to manage inventory, yet, the results from Table 11 shows that 56.7

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percent of SMEs in the Sekondi-Takoradi metropolis has no specific order cycle delivery time for every inventory. This is because 62.1 percent of owner managers determine inventory based on personal experience. This result is consistent with Pieterson (2012) who reports that most of the operators of SMEs do not have a re-order level policy in their enterprises for requesting stock or materials. This may tie up the working capital of the business. Organisations can employ Just-In-time strategy to increase efficiency and decrease waste by receiving goods only as they are needed in the production process, thereby reducing inventory costs (Birt et al., (2011). Proper inventory control system must be established within any enterprise to enable buyers to identify the best sellers early enough during a peculiar season, so that re-orders can be placed to increase total sales for the business (Gourdin, 2001).

Extent of Accounts Payable Management Practices

The owner managers were requested to indicate their agreement or otherwise to questions on the extent to which accounts payable management was practiced. The result is shown in Table 12. The results in Table 12 revealed that 80.2 percent of SMEs in Sekondi-Takoradi metropolis practice account payable management.

Table 12: Extent of Accounts Payable Management Practices

When the business buys merchandise on credit:	**Yes**	**No**
	%	**%**
pays on time	77.3	22.7

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demands early payment discount	81.6	18.4
negotiates with creditors to extend credit period	82.3	17.7
actually pays for amount written on payment invoice	79.4	20.6
Average Percentage	**80.2**	**19.8**

Source: Field survey, Nketsiah (2015)

Accounts Payable Management Strategies

The various strategies employed by SMEs in Sekondi-Takoradi to manage account payables is presented in Table 12. Table 12 shows that most (82%) of SMEs negotiates for extension of credit period. This is a good strategy because extending the account payables deferral period could increase profitability. This is because when payments to suppliers for goods supplied or services rendered are delayed, it gives organisations the opportunity to assess the quality of the products that were bought and services received (Nobanee & AlHajjar, 2009). This can prove to be a source of inexpensive and flexible finance for the organisation since late payment is often associated with some implicit cost such as discount for early payments. Table 12 further shows that, 82 percent of SMEs take advantage of discount by making timely payment for goods and services.

Extent of Asset / Investment Management Practices

The owner managers were requested to indicate their agreement or otherwise to questions on the extent to which asset management was practiced. The result is shown in Table 13. The results from Table 13 show that only 41.8 percent of SMEs in Sekondi-Takoradi metropolis practice asset management.

Table 13: Extent of Asset / Investment Management

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Statement The business:	Yes %	No %
invests temporary cash surplus	77.9	22.1
uses short-term funds for long-term investment	25.7	74.3
undertakes a formal appraisal technique before investing	20.0	80.0
reviews the investment projects after a certain period	60.7	39.3
uses NPV technique to assess investment	19.3	80.7
keeps asset register	47.6	52.4
Average Percentage	**41.8**	**58.2**

Source: Field survey, Nketsiah (2015)

Asset / Investment Management Strategies

The results from Table 13 show five strategies adopted by SMEs in Sekondi-Takoradi metropolis. The findings revealed that out of the 147 SMEs investigated, 78 percent invest temporary cash surplus. Few, 26 percent of the businesses use short-term funds for investment in long term projects. This may be due to SMEs anticipation of an expected flow of benefits over a series of years (Siaw (2014).

Similarly, the results from Table 13 shows that though some of the SMEs may have cash for investment, majority of SMEs (80%) do not undertake formal appraisal techniques before embarking on any investment project. This may put the initial amount invested at stake as the viability of some of the businesses invested in may be doubtful. This is further buttressed by the fact that 19 percent of SMEs use net present value (NPV) investment technique. This affirms Siaw (2014) who reports that 17.7 percent of SMEs employs NPV. Possible reason for this may be that small firms mostly do not

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make use of sophisticated investment appraisal techniques (Olawale *et al.* 2010)

However, the results in Table 13 further show that about 61% of SMEs indicated that they evaluate their investment projects after a certain period. This means that if the investment goes bad on the way there is a way to know how to bring it back on track and thus save the initial investment. This strategy has a big effect on the utilization of asset in generating sales which affects the overall performance of the businesses.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The purpose of this chapter is to discuss the findings and implications of the study, and their significance and contribution to practice. The chapter is divided into four sections. In the first section, the findings of the research are discussed, especially with regard to how they relate to the research objectives. This is followed by conclusions which include the contribution that the study has made to knowledge. The third and fourth sections deal with the recommendations of the study and suggestions for future research respectively.

Summary of Findings

This study sought to examine the financial management practices and their relationship with performance of SMEs in the Sekondi-Takoradi Metropolis. To achieve this, four specific objectives were set, these were: to establish the effect of financial management practices on performance; to establish the moderating effect of firm’s age on the relationship between financial management practices and performance; to determine the extent of financial management practices in SMEs in the Sekondi-Takoradi Metropolis; and to examine strategies adopted by owner managers in the components of working capital in the SMEs sector in Sekondi-Takoradi Metropolis.

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The research followed a descriptive cross-sectional design. Data for the study was collected through a structured questionnaire. The target population for this study consists of owner managers or entrepreneurs of SMEs operating in the Sekondi-Takoradi metropolis. A simple random sample of 200 respondents was targeted for the survey. In all, a total number of 147 questionnaires representing a response rate of 73.5% were used for the analysis.

Both descriptive and inferential statistical techniques were used to analyse the data. Frequencies and percentages were employed to present the responses obtained from the respondents. Statistical Product for Service Solution (SPSS) version 21.0 was employed to analyse the data. Finally, multiple linear regressions were employed to test the hypotheses of the study.

Basically, financial management practices such as receivables management, inventory management, cash management and asset management influence performance of SMEs. Also, there is a positive association between financial management practices and SMEs performance when firm's age is moderated for.

Additionally, the study revealed that, 72.3% of SMEs keep financial records, 80.2% of SMEs practice account payable management, 70.9% of SMEs practice receivables management, 67.4% of SMEs practice cash management and 59.5% of SMEs practice inventory management. However, only 41.8% of SMEs practice asset management.

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Moreover, the study sought to examine the strategies adopted by owner managers in managing the components of working capital. The study revealed that trade credit (99%) was the paramount strategy in managing account receivables after undertaking credit investigation followed by reminding debtors through phone calls (92%). The results also indicated that 78% and 86% of SMEs keep track of cash payment and receipts respectively. Additionally, 76% of SMEs prepare cash budget as strategies of managing cash. In terms of inventory management, though 74% of SMEs keeps records of inventory, only 43% of SMEs have specific order cycle delivery time for every inventory and only 50% of SMEs physically safeguard inventory against theft and fire. Furthermore, 82% of SMEs investigated pays for goods and services on time to take advantage of early payment discount and 82.3% of SMEs sometimes negotiates for extension in credit period as strategies of managing account payables.

The results further shows that, 97.9% of SMEs keep records relating to cash; customer’s indebtedness (82.9%); notwithstanding, asset register was the least records kept (47.6%). In terms of asset management strategies, the findings revealed that though 78 percent of SMEs invest temporary cash surplus and 61 percent review investment project after a certain period, majority (80%) fail to undertake formal appraisal techniques before investing.

Conclusions

The study examined financial management practices and their relationship with SMEs performance in the Sekondi-Takoradi Metropolis.

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The study identified some practices that significantly affect performance and others that do not. The study also sought to determine if the age of the firm has moderating effect on the relationship between FM practices and performance of SMEs. The conclusions drawn from the study are discussed below.

To begin with, financial management practices such as receivables management; inventory management, cash management and asset management are very important and indeed influence performance of SMEs.

Also, the positive relationship between financial management practices and SMEs performance when firm's age is controlled for indicates that, the effects of the financial management practices on SMEs performance depend on the longevity of the firm. This could imply that novelty exerts stronger beneficial effects on younger and smaller businesses. That is, age enables firms to develop organizational routines to be able to perform their activities with more efficiency and better performance.

Implication of Findings

The results have implications for practitioners and organisations alike. It will be particularly useful for organisations to understand how they can improve their performance.

Firstly, SMEs facing financial management problems could among other things, institute financial management practices such as receivables management, cash management, inventory management and asset management as part of their mitigation measures. This is because these practices have been proved to positively affect performance. These financial

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management practices must however not be applied across-the-board rather a proper assessment of the financial management needs specific to SMEs at different levels must first be done so that the right practices can be introduced to facilitate their strategic management.

Secondly, from time to time organisations must vary the kind of financial management practices they initiate. This is because financial management needs of the owner managers may change over time. Hence, if the same practice is repeated overtime, it will lose its efficacy and will therefore not achieve the intended purpose of enhancing performance of the business.

Finally, the study will assist businesses in formulating appropriate financial management policies, making informed decisions and adopting strategies that will boost performance. Further, this study can serve to develop the body of knowledge on financial management practices in the SMEs sector and promote more comprehensive research in the area.

Contribution to Knowledge

One major contribution of this study is the fact that it provided evidence that the issues of receivable management, cash management, inventory management and asset management practices can predict SMEs performance. These contemporary financial management practices are gaining popularity in use and importance among SMEs. By establishing that receivable management, cash management, inventory management, asset management and firm’s age have significant association with performance,

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this study has added to knowledge on financial management practices that are essential for SMEs performance.

The study also confirmed the positive association between financial management practices and SMEs performance. The results confirmed other studies such as Singh (2008); Peel and Bridge (1998); Olawale *et al.* (2010); Pedro and Pedro (2008). Additionally, the study also confirmed Hui *et al.* (2013), that firm's age has moderating effect on the relationship between financial management practices and SMEs performance.

This study bridges the gaps that were not covered by the previous studies since none of the studies had looked into all the six financial management practices in one study and SMEs performance in Sekondi-Takoradi. The study brought up new knowledge on how SMEs apply financial management practices and the weaknesses that were found out in their current operations hindering their performance. This study further serves as secondary data for prospective researchers and a reference point for future studies.

Recommendations

This study put forward some essential recommendations. Firstly, although receivable management practices, cash management practices, inventory management practices and asset management practices are associated with the performance of SMEs, it is recommended that entrepreneurs must not interpret it as the only practices for achieving better performance in terms of sales volume. There is therefore the need to train most of the entrepreneurs of SMEs in Ghana, especially those with little

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education. Entrepreneurs can be trained to make more realistic evaluations of their business capabilities and incorporate good financial management practices in their operations. Institutions like the NBSSI, Association of Ghana Industries (AGI), German Technical Cooperation (GTZ), United States Agency for International Development (USAID), Invest in Africa (IIA) and other consultants that are committed to seeing the development, growth and poverty alleviation in Africa and Ghana in particular can play significant roles in this regard.

There is the need to train firms on the relevance of using computer assisted software in recording inventory. Again, the training can focus on the need to institute order cycle delivery time for inventories and preparation of asset register to guide them in their operations. The training should be designed such that entrepreneurs with limited education could comprehend and use the skills they will acquire from such training.

The study recommends that all owner managers of SMEs be educated on the need to use formal procedures in receivable management (trade credit) so as to enhance the receivable collection process by ensuring consistency and uniformity of collection techniques. SMEs should adopt cost effective method of receivable management such as Credit Management Information Systems (CMIS).

Additionally, owners of SMEs should be trained on management of inventory by carrying out stock checking and stock records. They should also improve on advertisement, marketing strategies and attitude towards customers in order to make higher sales and increase profits. Efforts should be put by SME owners to ensure that inventory management is improved

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through setting re-order levels both for minimum and maximum so that the business does not run out of stock and diminish customers' confidence as well as tie too much capital in stock.

Financial institutions and the Business Advisory Centres (BAC) under the National Board for Small Scale Industries (NBSSI) should institute collaborative strategies and procedures that will assist the operators of SMEs to improve their cash management practices. These strategies could include periodic joint training and seminars for owners of SMEs on record keeping, cash budget and bank reconciliation.

Additionally, there should be a mandatory policy for owner managers of SMEs to keep records of their business transactions especially asset register. This will help in the management of SMEs and at the same time when it comes to issues of taxation. If the afore-mentioned recommendations are adhered, it is believed that sales volume of SMEs in Sekondi-Takoradi and Ghana at large will be enhanced.

Suggestions for Further Research

Some suggestions for other future studies have been provided below.

Firstly, financial management practices and its effect on performance is a very significant area due to the importance of financial management. However, most of the studies are carried out in the Western world and on larger firms which necessitated this study. It is therefore important that more researchers especially those in Africa continue to explore the area empirically.

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Secondly, due to time constraints, this research was cross sectional and was also restricted to the SMEs sector in the Sekondi-Takoradi metropolis, Ghana. In future, longitudinal study should be undertaken to assess the financial management practices that affect performance. Such a study will have the potential to reveal if the practices leading to performance which is measured at one time will be the same or vary from the outcomes at a later point in time. This can help in the decision that management may take at each point in time. Also the study can be replicated in other regions or industrial sectors of the economy. This can provide a broad representation of what happens in the entire industrial sector in Ghana.

Also, this study mainly employed quantitative methods. It is therefore suggested that future studies should employ mixed methods i.e. both quantitative and qualitative methods in order to obtain greater insights into the specific financial management practices especially from the perspective of owner managers of SMEs. Such research can also elicit secondary data for future research in the SMEs sector.

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APPENDICES

APPENDIX A

Table of Random Numbers showing Sample of SMEs in Sekondi-Takoradi

200 Random Numbers
331 600 353 687 448 606 692 635 044 293 510 622 643 020 367 290 722
749 464 557 077 196 041 505 435 443 418 492 272 372 477 720 350 339
575 427 467 345 711 375 063 033 529 361 663 521 386 589 741 489 484
296 298 697 060 244 656 182 640 231 494 671 497 459 370 638 594 166
689 085 171 114 285 534 549 101 122 261 608 329 760 228 705 036 318
437 282 746 676 684 660 733 513 410 516 199 591 378 614 668 708 586
191 616 305 072 008 603 142 762 627 068 220 730 725 537 337 736 301
486 695 424 679 472 532 150 738 700 611 117 074 407 728 326 412 355
526 573 028 342 363 502 646 570 239 469 744 277 559 475 321 023 155
163 139 212 754 651 757 440 630 619 093 147 187 065 432 655 546 313
047 082 383 039 106 310 461 006 204 017 578 215 543 524 174 665 158
713 012 391 015 179 090 358 315 648 207 567 451 394
Specs: This table of 200 random numbers was produced according to the following specifications: Numbers were randomly selected from within the range of 1 to 762. Duplicate numbers were not allowed. This table was generated on 4/24/2015

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APPENDIX B: **Sample size determination table**

Table 1: Table for Determining Minimum Returned Sample Size for a Given Population Size for Continuous and Categorical Data

	Sample size					
	Continuous data (margin of error= .03)			Categorical data (margin of error= .05)		
Population size	alpha= .10 t= 1.65	alpha= .05 t= 1.96	alpha= .01 t= 2.58	p= .50 t= 1.65	p= .50 t= 1.96	p= .50 t= 2.58
100	46	55	68	74	80	87
200	59	75	102	116	132	154
300	65	85	123	143	169	207
400	69	92	137	162	196	250
500	72	96	147	176	218	286
600	73	100	155	187	235	316
700	75	102	161	196	249	341
800	76	104	166	203	260	363
900	76	105	170	209	270	382
1,000	77	106	173	213	278	399
1,500	79	110	183	230	306	461
2,000	83	112	189	239	323	499
4,000	83	119	198	254	351	570
6,000	83	119	209	259	362	598
8,000	83	119	209	262	367	613
10,000	83	119	209	264	370	623

NOTE: The margins of error used in the table were .03 for continuous data and .05 for categorical data. Researchers may use this table if the margin of error shown is appropriate for their study; however, the appropriate sample size must be calculated if these error rates are not appropriate. Table developed by Bartlett, Kotrlik, & Higgins.

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APPENDIX C

UNIVERSITY OF CAPE COAST

SCHOOL OF BUSINESS

QUESTIONNAIRE

Dear Sir/madam

I am post graduate student from the School of Business, Department of Accounting and Finance, University of Cape Coast. I am collecting data from SMEs owner/ managers for a research study on **FINANCIAL MANAGEMENT PRACTICES AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN SEKONDI-TAKORADI METROPOLIS.**

I will be most grateful if you could take time off your busy schedule to answer this questionnaire. You are assured that any information provided will be treated as confidential and not be shown to other persons and will be used for academic purpose only. Thank you for your cooperation and your time.

Isaac Nketsiah (0245890114/0275271866)

SECTION A: BACKGROUND DATA

1. Sex of the owner or manager a. Male [ ]

   b. Female [ ]

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2. Marital status

a. Married [ ]   b. Single [ ]   c. Divorce [ ]

d. Widow [ ]

3. Educational background of owner/manager

a. Never been to school [ ]   b. Basic [ ]   c. Secondary [ ]

d. Tertiary [ ]

4. What is the nature of the enterprise?

a. Manufacturing [ ]   b. Hairstyling [ ]   c. Trading / Retailing [ ]   d. Tailoring / Dressmaking [ ]

e. Other (please specify)...

5. Number of years in business

a. 1-5 [ ]   b. 6-10 [ ]   c. 11-15 [ ]

d. Over 15[ ]

6. What is the current number of employees?

a. 1-5 [ ]   b. 6-10 [ ]   c. 11-15 [ ]

d. Over 15[ ]

7. What is the business estimated weekly sales value (in GH¢)…………………………………………………

8. Estimated weekly expenditure in Ghana Cedis ……………………………..

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SECTION B: FINANCIAL RECORDS KEEPING PRACTICES

Which of the following statements do you agree to:	Yes	No
1. The business keep financial records of the operations?		
2. every transaction of the business is recorded		
3. records of all sales are kept		
4. records of customer's indebtedness is kept		
5. there is records of all cash transactions		
6. records of inventory are kept		
7. The business keeps records of all purchases		
8. the business keep records of all purchases on credit		
9. Financial records have details such as date, name, contact, amount involved, etc		

SECTION C: ACCOUNTS RECEIVABLE MANAGEMENT PRACTICES

	Yes	No
10. The business sometimes sell on credit		
11. Credit investigations are undertaken before granting credit to customers		

12. Credit policies put in place by owner managers:

a. Check customers past records from other business firms		
b. Check customers past financial dealing with the company		
c. Nature of inventory / service		

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13. **Strategies to collect money from slow paying customers:**		
a. giving cash discount to customers		
b. Personal visits		
c. Reminder through phones calls		
d. Requesting previous debt to be paid before additional credit is given		
e. Using the police to collect their cash from credit customers		

SECTION D: CASH MANAGEMENT PRACTICES

Which of the following statements do you agree to: The business	**Yes**	**No**
14. records all cash transactions		
15. keeps track of all cash receipts		
16. keeps track of all cash payments		
17. has its own bank account		
18. saves with a financial institution		
19. prepares budget		
20. reviews its budget		
21. spend within budget		
22. do monthly reconciliation of cash book with bank		

SECTION E: INVENTORY MANAGEMENT PRACTICES

22. What type of inventory do you keep?

a. Raw materials [ ] b. Components and parts [ ] c. Finished goods [ ] d. Accessories [ ] e. Work in progress [ ]

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Which of the following statements do you agree to: the business	**Yes**	**No**
23. keeps records of all inventory		
24. undertakes monthly stock taking of inventories		
25. uses computer assisted software in recording inventory		
26. determines inventory level based not on personal experience		
27. undertakes occasional surprise counts		
28. reviews inventory levels		
29. uses notebooks as source of stock taking records		
30. physically safeguards inventory against fire and theft		
31. has specific order cycle delivery time for every inventory i.e. the period between placing one set of order and the next		

SECTION F: ACCOUNT PAYABLE MANAGEMENT PRACTICES

When the business buys merchandise on credit:	**Yes**	**No**
33. pays on time		
34. demands early payment discount		
35. negotiates with creditors to extend credit period		
36. actually pays for amount written on payment invoice		

SECTION G: ASSET MANAGEMENT / INVESTMENT PRACTICES

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The Business:	Yes	No
37. invests temporary cash surplus		
39. uses short-term funds for long-term investment		
40. undertakes a formal appraisal technique before investing		
41. uses net present value technique to assess the investment		
42. reviews the investment projects after a certain period		
43. keeps asset register		

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APPENDIX D- Letter of Transmittal

UNIVERSITY OF CAPE COAST
COLLEGE OF HUMANITIES AND LEGAL STUDIES
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE

Telephone (0332)1 32440/32444 Ext. 219/220
Direct (03321) 36435
Telegrams: University, Cape Coast
Telex: 2552, UCC, GH.

UNIVERSITY POST OFFICE
CAPE COAST, GHANA

Our ref: SB/SB/DAF/ IL V.1/126

22nd May, 2015

Your ref:

Owner Managers
SME's
Sekondi-Takoradi

Dear Sir/Madam,

INTRODUCTORY LETTER: MR. ISAAC NKETSIAH

The bearer of this leter, Mr.Isaac Nketsiah is a Master of Commerce (Finance) student of the School of Business, University of Cape Coast. He is writing his thesis on the topic '**Financial Management and Performance of SME's in the Sekondi-Takoradi Metropolis.**

We would be grateful if you could permit him to administer his questionaire in your institution and also offer him the necessary support he might need.

Thank you in anticipation of your cooperation.

Yours faithfully,

Siaw Frimpong (PhD)
HEAD

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APPENDIX E-Output for Principal Component Analysis

The Kaiser-Meyer-Olkin Measure of Sampling (KMO) Values

VARIABLE	KMO	SIGNIFICANCE
Financial records keeping practices	0.893	0.000
Account receivable management practices	0.653	0.000
Cash management practices	0.708	0.000
Inventory management practices	0.832	0.000
Account payable management practices	0.711	0.000
Asset management practice	0.734	0.000

Cash Mgt. Rotated Component Matrix[a]

	Component	
	1	2
records cash transactions	.915	
reviews budget	.900	
keeps track of cash receipts	.888	
prepares budget	.875	
saves with financial institution	.836	
ownes bank account	.835	
keeps track of cash payments	.820	
spend within budget	.334	
do monthly reconciliation		**.950**

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.[a]

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a. Rotation converged in 3 iterations.

Inventory Mgt. Rotated Component Matrix[a]

	Component	
	1	2
records all inventory	**.912**	
notebooks as source of taking records	.854	.321
undertakes occasional surprise counts	.809	.335
undertakes monthly stock-taking	.770	
reviews inventory levels	.628	.472
has specific orer cycle delivery time for every inventory		.871
determines inventory level based on experience	.424	.756
physically sageguards inventory against fire and theft	.328	.747
uses computerr assisted software in recording inventories	.346	.647

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.[a]
a. Rotation converged in 3 iterations.

Account Payable Mgt. Component Matrix[a]

	Component
	1
demands cash discount	**.973**
negotiates for extended period	.973
actually pays for amount written on invoice	.973
pays on time	.930

Extraction Method: Principal Component Analysis.

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a. 1 components extracted.

Asset Management Rotated Component Matrix[a]

	Component	
	1	2
reviews investment project	**.896**	
keeps asset register	.832	
invests temporary cash surplus	.815	
undertakes formal appraisal technique		.884
uses NPV technique to assess invt		.878
uses short term funds for long term invt		.771

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.[a]

a. Rotation converged in 3 iterations.

Financial Records Keeping Component Matrix[a]

	Component
	1
records have details such as date, name contact, amt involved, etc	**.936**
sales records kept	.934
biz keeps fin records	.930
cash transactions kept	.921
purchases records kept	.872
every transaction recorded	.859
purchases on credit kept	.859
customer's indebtedness kept	.854

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inventory records kept	.789

Extraction Method: Principal Component Analysis.
a. 1 components extracted.

Account Receivable Mgt. Rotated Component Matrix[a]

	Component		
	1	2	3
check customers past financial dealing	**.889**		
credit investigations undertaken	.862		
requesting previous debt to be settled first	.851		
nature of inventory	.846		
phone calls reminders	.757		
personal visits		.740	
check customers past records	.562	.680	
giving cash discount	.471	.657	
biz sells on credit			.835
use police to collect debt		.452	-.530

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.[a]

a. Rotation converged in 6 iterations.

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APPENDIX F- OUTPUT FOR COLLINEARITY TEST

Test of Multicollinearity for Financial Management Practices[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.813	.061		46.135	.000		
	Financial Records-keeping Practices	-.060	.101	-.076	-.594	.553	.311	3.213
	Account Receivable Mgt. Practices	.172	.074	.236	2.315	.022	.491	2.039
	Cash Mgt. Practices	.109	.025	.336	4.405	.000	.878	1.139
	Inventory Mgt. Practices	.022	.090	.030	.246	.806	.346	2.891
	Account Payable Mgt. Practices	.117	.094	.139	1.246	.215	.407	2.456
	Asset Mgt. Practices	.134	.067	.201	1.987	.049	.499	2.003

a. Dependent Variable: Sales volume

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Test of Multicollinearity for Entrepreneur characteristics

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Gender of Owner Managers	.921	1.086
	Educational Background of Owner manager	.848	1.179
	Firm's age	.812	1.231

Multicollinearity test results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Total Financial Records-keeping Practices	.271	3.689
	Total Account Receivable Mgt. Practices	.483	2.071
	Total Cash Mgt. Practices	.462	2.165
	Total Inventory Mgt. Practices	.246	4.068
	Total Account Payable Mgt. Practices	.329	3.042
	Total Asset Mgt. Practices	.378	2.649

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APPENDICES

APPENDIX A

Table of Random Numbers showing Sample of SMEs in Sekondi-Takoradi

200 Random Numbers
331 600 353 687 448 606 692 635 044 293 510 622 643 020 367 290 722 749 464
557 077 196 041 505 435 443 418 492 272 372 477 720 350 339 575 427 467 345
711 375 063 033 529 361 663 521 386 589 741 489 484 296 298 697 060 244 656
182 640 231 494 671 497 459 370 638 594 166 689 085 171 114 285 534 549 101
122 261 608 329 760 228 705 036 318 437 282 746 676 684 660 733 513 410 516
199 591 378 614 668 708 586 191 616 305 072 008 603 142 762 627 068 220 730
725 537 337 736 301 486 695 424 679 472 532 150 738 700 611 117 074 407 728
326 412 355 526 573 028 342 363 502 646 570 239 469 744 277 559 475 321 023
155 163 139 212 754 651 757 440 630 619 093 147 187 065 432 655 546 313 047
082 383 039 106 310 461 006 204 017 578 215 543 524 174 665 158 713 012 391
015 179 090 358 315 648 207 567 451 394
Specs: This table of 200 random numbers was produced according to the following specifications: Numbers were randomly selected from within the range of 1 to 762. Duplicate numbers were not allowed. This table was generated on 4/24/2015

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