UNIVERSITY OF CAPE COAST

WORKING CAPITAL MANAGEMENT PRACTICES OF SMALL AND MEDIUM SCALE ENTERPRISES IN THE AGONA WEST MUNICIPAL ASSEMBLY OF THE CENTRAL REGION OF GHANA

BY

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DECLARATION

Candidate's Declaration

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

Candidate' Signature…………………………..… Date…………………………….

Candidate's Name: Kofi Akuffo Addo

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of degree dissertation laid down by the University of Cape Coast.

Supervisor's Signature…………………….. Date…………………………….

Supervisor's Name: Mr. Stephen Asante

ABSTRACT

The study was to examine working capital management among small and medium scale enterprises (SMEs) in the Agona West Municipal Assembly in the Central Region. The study employed a survey research design of which the targeted population was the SME operators in the Agona West Municipal Assembly. The study sampled 155 respondents using simple random sampling technique. Questionnaire was the main data collection instrument. Furthermore, the data were processed using SPSS version 21.0. The analysis was done using percentages and frequencies and results were presented using tables and charts. The study found that SMEs do not follow a formalize working capital policy (cash management, inventory management, receivable management and payables management) and therefore are not able to analyse properly their effectiveness and efficiency in managing working capital. Finally, Computer illiteracy of accountants, insufficient funds to employ professional accountants and upgrading the skills of non-professional accountants were some of the challenges that impeded the smooth utilisation of working capital by the entrepreneurs. The study concluded that most SME operators do not have proper working capital management practices. It is therefore, recommended that established organisations and groups like civil society organisations, regional, district, community and interest groups should jointly organise and sponsor training programmes for their accounting personnel. Also, SMEs should formulate credible credit policies for their enterprises and should create a re-order level policy for their businesses that will create an enabling environment for them to request for the supply of moderate and high quality stocks.

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I am thankful to my supervisor, Mr. Stephen Asante, for his patience, guidance, support and encouragement throughout this work. Also, I thank all those who supported me in the completion of this work especially my family and course mates.

DEDICATION

To my lovely wife and children

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CHAPTER ONE

INTRODUCTION

This section presents the overview on the study which includes the background to the study, statement of the problem, purpose of the study, research objectives, research questions, significance of the study, delimitations, limitations and organization of the study.

Background to the Study

The importance of financial management in business cannot be over emphasized, since many of the factors that contribute to failure can be managed properly with strategies and financial decisions that drive growth and the organization's objectives (Uluyol, 2013). According to Ibarra (2010) and Van-Auken and Howard (2013), the main causes of business failure are the lack of financial planning, limited access to funding, lack of capital, unplanned growth, low strategic and financial projection, excessive fixed-asset investment and capital mismanagement. In addition, Ibarra (2010) indicated that, many of these causes of failure are challenges that can be successfully managed with financial strategies developed and implemented by the organization. However, the study of strategic working capital management has been, for a long time, limited to large corporations, about which extensive research has been published.

One of the main features of small businesses is that they do not have useful financial information to make decisions. The information generated is utilized to pay taxes but does not reflect the real situation of the organization (Norlaphoompipat, Holmes, Hutchinson & Forsaith, 2008). In addition, small businesses do not have specialized personnel with expertise for planning, administration and financial decision-making, and the owner has to make decisions without a solid foundation (Longenecker, Palich & Hoy, 2012).

Small and medium scale businesses are viewed as essential elements of healthy and vibrant economy. They are vital in the promotion of an enterprise culture and the creation of jobs within an economy (Bolton Report, 1971). Small and medium sized enterprises (SMEs) are believed to provide an impetus to the economic progress of developing countries. Developed countries enjoying growing and booming economies attribute most of their achievements to a flourishing SME sector. Studies have shown that SMEs contribute over 55 percent of gross domestic product (GDP) and over 65 percent of total employment in high income countries (Bolton Report, 1971). According to the Department of Statistics of Malaysia, the economic growth in developed countries such as Korea Republic, Japan, Taiwan and many others was significantly generated by SMEs activities. The percentage contribution of SMEs to Gross Domestic Product ranges 60 percent in China, 57 percent in Japan, 50 percent in South Korea compared to 47 percent attained in Malaysia. This shows that small and medium scale enterprises importance to economic development in both developed and developing countries cannot be over emphasized.

In Ghana, SMEs account for 70 percent of gross domestic products and 92 percent of business according to the Ghana statistical service. SMEs also make up 91 percent of business of formalized businesses in South Africa and 70 percent of manufacturing sector in Nigeria (Frimpong, 2013). The contribution of SME to the encouragement of entrepreneurship and the achievement of economic objectives including poverty alleviation, decentralization and employment is recognized therefore successive government policies in metropolitan municipal and district assemblies have been based on SME empowerment. According to the Registrar Generals Department, about 92 percent of all companies registered are micro, small and medium enterprises. SMEs in Ghana have also been noted to provide about 85 percent of manufacturing employment and contribute about 70 percent to Ghana's GDP (Government of Ghana, 2015). According to Osei-Assibey (2013), every business entity, especially small and medium–sized enterprises (SMEs) needs credit for growth and effective productivity. SMEs have been identified to play an important role in the growth and development of many economies, of which Ghana is no exception.

Working capital refers to short term funds required for the day to day operations of a business organization (Ashvinkumar, 2009). These funds are used to carry out regular business operations including purchase of raw materials, payment of expenses, carrying out of production, investment in stocks and stores and amount maintained as cash (Ashvinkumar, 2009). It can also be regarded as the proportion of a company's total capital which is employed in the short term operations. According to Berryman (1983), poor working capital management is a major cause of SME failure and this was confirmed by Kee, Wright and Charoenwonge (1986) when they stated that Cash management is an important aspect of financial planning has become a common factor for small business failure in Singapore. Inadequate capital, cash flow management, inventory control contribute to SME failure Dodge et al. (1994).

In the UK 20 percent of business failures were due to bad debt or poor receivables management according to a survey conducted by the insolvency practices society (CIMA, 1994). Firms would fail if working capital management could be improved and that working capital management practices are extremely important for SMEs (Peel & Wilson, 1994). Working-capital decisions include the management of short-term assets and liabilities in a way that ensures the adequacy of resources for company operations (Liu, 2010). In view of the sizes and complexities of the operations of the SMEs, majority of them fail to keep proper records of their financial activities which affect their working capital. This has credit management, taxation and security implications of them. Majority of the small and medium scale enterprises become virtually constrained in managing their working capital marvelously due to their lack of proper business records and this study seeks to examine the working capital management practices of these SMEs in the Agona West Municipality.

Statement of Problem

According to Wanjohi (2009), starting and operating a small business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to the death of a small enterprise hence no opportunity to learn from its past mistakes as a result of lack of planning, improper financing and poor management that have been cited as the main causes of failure of small enterprises (Longenecker et al., 2012). Though it is clear that SMEs play a critical role in economic development, the rate at which newly established SMEs are collapsing is wanting in Ghana (Ghana Statistical Service, 2015). According to Awal (2018), about 75 percent of businesses in Ghana fail within the first three years, while those that survive the first three years do not go beyond 10 years. Thus, Small and medium size enterprises by its many definitions contribute over 98 percent of businesses in the Agona West Municipality and they are easily the dominant businesses in terms of economic activity and employment generation. The need to maintain effective working capital management with small and medium enterprises remains pivotal to the solvency and liquidity of SME. Regardless of excellent products, effective marketing, efficient production and effective fixed assets management businesses will fail when its unable to meet current obligations, when its unable to collect receivables and meet customer orders and when it over trade. For instance, three out of five SME businesses fail within the first few months of operation (Ghana Statistical Service, 2015).

Gungor and Ondeş (2013) indicated that, lack of financial management knowledge and collection of receivables in working capital management are among the most common financial problems in SMEs. While the literature on SMEs working capital management suggests that SMEs owners or managers do not always employ the processes of strategic management when running their businesses (Zimmerer & Scarborough, 2013), some empirical studies on financial management constructs present indicators of employment of an “emergent” approach of strategic management at the implementation phase of the conduct of financial management practices, particularly when managing daily financial operations and during processes of large investments. On the other hand, the owners or managers of SMEs experience problems in taking a “deliberate” approach of strategic management, regarding the strategy formulation and feedback and control phases of financial management, which results in poor financial and overall organizational performance results.

Further, the concept of management of working capital is not well understood by a good number of the small and medium scale enterprises in the developing countries like Ghana. The vibrant task of the SMEs in the developing economies has been recognized as the ways through which speedy industrialization and new developmental goals of these countries can be realized. A lot of small and medium scale enterprises that are lucrative are forced to close down their operations because of the failure of meeting their short-term debt obligations. Not the fact that such enterprises do not have enough funds for their operations, but rather, how to manage their working capital is the problem. To increase practical insight into this condition of affairs, there is the need to investigate into the management practices of small and medium scale enterprises concerning their working capital and why the lucrative ones tend to collapse in the Agona West Municipality of the central region in Ghana.

Purpose of the Study

The main purpose of the study is to investigate the working capital management practices of SMEs in the Agona West Municipality.

Research Objectives

Specifically, the study seeks to:

1. determine sources of funding working capital in SMEs
2. determine account receivable management practices of SMEs
3. analyse account payable management practices of SMEs
4. examine inventory management practices of SMEs
5. assess cash management practices of SMEs

Research Questions

The following questions will guide the study;

1. What are the sources of funding working capital in SMEs?
2. What are the account receivable management practices of SMEs?
3. What are the account payable management practices of SMEs
4. What are the inventory management practices of SMEs
5. What are the cash management practices of SMEs

Significance of the Study

Evidence has shown that small and medium enterprises (SMEs) in Ghana over the years have contributed greatly to the overall employment and production of goods and services. The study will contribute to how small and medium enterprises (SMEs) can ensure a sustainable increase in their cash holdings when constituents of working capital increase. Also, the results will be valuable not just to small and medium scale business units in the Agona West Municipality but also to all such units in Ghana in general. This would again aid in the formulation and implementation of policies by the stakeholders in this business that would help them to successfully run their working capital thereby improving upon their working capital management.

Moreover, this study would aid stakeholders in the SMEs to improve their book keeping and accounting practices to ease growth. It will, furthermore, help the SMEs to get access to finance support and develop their financial management skills. Again, it will help to take up cautious managerial policies as well as qualified expertise for effective managerial works.

Further, this study will give valuable knowledge for crafting strategies to manipulate the growth of small and medium scale enterprises. The findings present a useful tool by which SMEs in the country especially AWM can use to effectively manage their business. Finally, the study adds to the literature on working capital and cash holdings and also encourages further research into the subject matter.

Delimitations

The study was to examine the working capital management practices of SMEs in the Agona West Municipality. Specifically, this study covered areas such as sources of funding working capital in SMEs, account receivable management practices, account payable management practices, inventory management practices, and cash management practices of SMEs in the Agona West Municipality.

Limitations

The first limitation is the sampling of the 155 SMEs based on the availability of their financial statement for the period of the study. This excluded some SMEs that could have influence the result. Also, this study was conducted in an area where there is high illiteracy rate. The research questionnaires needed to be translated to some SMEs for understanding. The study was constrained by finance and time. The study is also limited longitudinally. Given the relatively short period of time, within which this study was conducted, it was not possible to undertake a longitudinal study to measure stability or otherwise in research findings. Over time, the findings of the study may not be applicable.

Organisation of the Study

This study is organised into five chapters. Chapter one of the study consists of background of the study, statement of the problem, purpose of the study, research objectives, research questions, delimitations, limitations of study, and organisation of the study. Chapter two reviewed theoretical and empirical literature which will be done with reference to the objectives of the study. Key concepts on working capital management practices of SMEs and other the existing studies are reviewed and presented for readers understanding. Chapter also focuses on research methodology, including the study design, study area, target population, sample size, sampling procedure, instrument used in collecting data, sources of data, and the method of data analysis. The fourth chapter depicts and discusses the findings of results. Chapter five provides summary, conclusions, and appropriate recommendations as well as direction for future studies.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter reviews some of the associated literature on management of working capital of Small and Medium Scale Enterprises. Thus, this chapter presents the relevant theoretical and empirical literature on the subject. The first section explores the theoretical underpinning and concepts of the study. The second section examines empirical literature of interest to the topic and main discussions on phenomena within the context and scope of the study.

Theoretical Review

There are several theories that relate to the management of working capital especially in firms operating in highly volatile business environments like the case of Ghana. These include the pecking order theory, agency theory, configuration theory and the risk management control theory as explained below.

Pecking Order Theory

The Pecking Order Theory is based on information asymmetry where the firm's managers are seen to possess more knowledge on the firm's value than the potential investors are. It states that firms prefer internal financing and the use of debt to common stock in case of the need for external funds (Myers & Majluf, 1984). Internally generated funds are assumed to have no transaction costs and the use of debt signals positive information while the use of ordinary shares signals negative firm information (Correa, Basso & Nakamura, 2007). The pecking order theory explains the maintenance of high levels of cash reserves and most liquid assets that ensure obligations are met as they arise and avoid the use of external funds (Chen, 2004).

By using a conservative financing strategy, a firm gets easy access to credit and is seen as safe by potential investors. According to the pecking order theory, firms should use an aggressive working capital policy by maintaining a lower level of current assets and higher supplier financing. This ensures a high level of internal funds to finance the firm's operations without the issuing of debt or equity. The pecking order theory is relevant in the management of working capital of firms operating in highly uncertain environments, as the managers responsible should be able to trade-off between the conservative and aggressive financing strategies to optimize a firm's performance.

Agency Theory

Jensen and Meckling (1976) advanced the agency theory, which explains the relationships and contracts that exist in a firm among the various stakeholders like shareholders (principals) and the managers (agents). Despite the stipulated shareholder objectives that managers are supposed to meet, they are not able to achieve them due to non-rational opportunistic behaviour of the managers which leads to agency conflicts or problems (Jensen, 1994). To minimize agency problems the principals incur agency cost that is defined as the monitoring expenses incurred by the principal, bonding expenses and the resultant loss due to the separation of control and ownership (Jensen & Meckling, 1976).

The agency theory is important in the management of firms' finances though it depends on the ability and ethics of the managers responsible for running the organization. It is crucial in the management of working capital especially in firms operating in highly unstable and uncertain environments as high agency costs are incurred in ensuring the success and sustainability of the hotels.

Configurational Theory

The Configurational theory is an advancement of the contingency theory that proposes that the performance of a firm depends on the fit of organizational design and environment (Shortell, 1977). The contingency theory advances that various aspects of technologies, environments and structures interact to determine the performance level of an organization. However, the configurational theory goes further on to state that the environment and organizational fit should not be limited to structural perceptions like centralization but should extend to abstract situational aspects like technological uncertainty and firm size (Meyer, Tsui & Hinings, 1993).

According to the contingency theory, the effectiveness or ineffectiveness of a firm depends on the match or mismatch of an organizational structure against its external contingency factors (Donaldson, 1982). These external factors include demographic trends, economic conditions, legal/ political factors, industry structure variables and demographic trends (Hofer, 1975). External factors are prone to rapid changes hence managers should align the firm to the arising situations to maximize their output (Hofer, 1975).

In managing working capital, the configurational theory states that an organisation's activities should be aligned to its contextual variables like the industry structure, economic situation, demand behavior and supplier variables (Faden, 2014). To achieve organizational performance then the various internal variables of working capital should be matched with arising contextual variables, as an optimization of these aspects will lead to the attainment of maximum firm performance as the configurational theory postulates (Faden, 2014). With working capital being a major driver of organizational performance, it is important for the firms' managers to be able to align the various internal working capital variables to the changing environmental aspects especially in firms operating in highly volatile environments.

Risk Management Control Theory

Risk management revolves around the logical development and implementation of a plan to deal with potential losses in an organisation and it is crucial for firms to put in place risk management programmes to help in management of its exposure to risks and guard its assets (Dorfman, 2007). Risk management is a strategy of pre-loss planning for pre-loss resources whose main essence is to prepare ahead of time on how to control and finance losses before they occur (Dorfman, 2007). According to Power (2007), there has been an explosion of risk discourse and related practices and organizations have re-envisioned their process around the idea of risk. Internal control and governance have been re-invented in terms of capability for effective risk management embodied in a combination of standards and guidelines that provide legitimized templates for organizations to represent and account for themselves as well as control and govern (Power, 2007).

In a highly risky and uncertain business environment like the Ghana tourism industry, the risk management control theory is crucial as it ensures that the board of directors, managers and other personnel are able to identify potential risky events that may affect the firm hence come up with strategies that manage the same for an organisation's performance. The level of working capital maintained by the firms is important in mitigating arising obligations and liquidity shortfalls hence as the risk management control theory postulates clear guidelines should be developed to deal with any rapid changes in demand and supply.

Theory on Working Capital Management

To the financial literature, the significance of a proficient working capital management is not something new. The effective management of working capital is much more important to the small and medium scale enterprises than to the large scale organizations particularly as they are more likely to have access to financial expertise like the large enterprises (Okeke, 2013). It should be noted that different people use the term 'working capital' differently. According to Khan and Jain (2007), there are two theories of working capital; gross and net. The term gross capital as a theory of working capital refers to the total current assets of a business unit. On the other hand, the term net working capital can be defined first as the difference between current assets and current liabilities and second as the portion of current assets which is financed with long term funds. Usually, the term working capital is defined to mean the current assets less the current liabilities. Accounts payable and bank overdraft are the key elements of current liabilities whereas those of the current assets are accounts receivables, cash (in hand and at bank) and inventories.

According to Atrill (2006), working capital refers to a net investment in short term assets. Those assets which continue to circulate in and out of the business are crucial for the day –to –day activities of the unit. Part et al. (2008), describes working capital as the investment in different items of current assets needed for the business, which are inventory, debtors, cash and other current assets like loans and advances of third parties. Such current assets help in the smooth operations of the business and proper utilization of fixed assets. Theoretically, net working capital is the difference between current assets and current liabilities whereas gross working capital is the sum of all current assets. A number of factors such as the credit policy, price level changes, the nature of the business and the conditions of supply usually affect working capital. A business unit is to create enough funds to help it cater for its urgent obligations to be able to continue trading. The failures of small and medium scale enterprises have greatly been as a result of inadequate working capital decisions and accounting information. According to Barrow (2001), there is sufficient proof which points to small and medium enterprises as being inefficient users of working capital. To him, the smaller they are, the less efficient they tend to be.

Tisma and Pasoravoc (2005) writing on the importance of working capital argue that, working capital forms a large part of the firm’s total assets. Firms in manufacturing and retailing mostly keep more than half of their total assets as current assets despite the fact that the level of working capital differs greatly among different industries. In terms of the small and medium scale enterprises, where most of them do not have long term investment in the building and vehicles of their own, it makes the percentage even higher because the business’ current assets are kept in inventory, accounts receivables and bank and cash balances. Since higher levels of working capitals are required to sustain sales growth and production, it makes the firm’s long term growth and survival directly affected by working capital management. Most of the small scale enterprises run their business without monitoring the use of their working capital. In simple words, Small Scale Enterprises (SSEs) owners cannot afford to ignore the progress of working capital management.

Definition of SMEs

The definition of Small and Medium Enterprises therefore varies from country to country. The classification can be based on firm's assets, number of employees, or annual sales. Researchers and policy makers have used a variety of criteria including; total worth, relative size within industry, number of employee, value of products, annual sales or receipts, and net worth (Cochran, 1981). Pobosky (1992) also observe that numerous varieties of criteria can be applied in defining SMEs which include the size of the work force (employees) or capital, forms of management or ownership, production techniques, volume of sales, number of clients, level of energy consumption and others. In Japan, small scale industry is defined according to the type of industry, paid-up capital and number of paid employees. Consequently, small and medium scale enterprises are defined as: those in manufacturing with 100 million yen paid up capital and 300 employees, those in wholesale trade with 30 million yen paid-up capital and 100 employees, and those in the retail and service trades with 10 million yen paid-up capital and 50 employees (Ekpenyong, 1992)

The EU defines SMEs by a standardized concept. Its current definition categorizes companies with fewer than 10 employees as "micro", those with fewer than 50 employees as "small", and those with fewer than 250 as "medium". In the United States however in using the number of employees defines small businesses as those with fewer than 100 employees, while medium sized business often refers to those with fewer than 500 employees.

Canada also defines a small business as one that has fewer than 100 employees (if the business is a goods producing business) or fewer than 50 employees (if the business is a service-based business), and a medium-sized business as fewer than 500. (Carsamer, 2009).The 1985 UK Companies Act defines small company in respect of financial disclosure as companies employing 50 or less employees. In Australia, SMEs are defined slightly differently from above, the Wiltshire Committee (1971) define SMEs as a business in which one or two persons are required to make all the critical management decisions: finance, accounting, personnel, purchasing, processing or service, marketing , selling , without the aid of internal specialist and with specific knowledge in only one or two functional areas.

The United Nations Industrial Developmental Organization (UNIDO) also used number of employees to define SMEs by giving different classifications for industrialized and developing countries. The definitions for industrialized countries are given as follows: Large – firms with 500 or more workers ; Medium- firms with 100-499 workers and small firms with 99 or less workers;. The classifications given for developing countries are as follows: Large firms with 100 or more workers; medium- firms with 20-99 workers; Small- firms with 5-19 workers and micro firms with less than 5 workers.

In Ghana, the National Board for Small Scale Industries (NBSSI) defines SMEs as an enterprise which employs not more than 29 workers with an investment (excluding land, building and vehicles) not exceeding 10million Ghana cedis.

Osei et al. (1993) use an employment cut-off point to categorize SMEs. They classify small-scale enterprise into three categories which includes: micro-employing less than 6 people, very small- employing 6-9 people and small-between 10and 29employees. Ghana Statistical Service (GSS) considers firms with fewer than 10 employees as small-scale enterprises and, the GSS in its national accounts considered companies with up to 9employees as SMEs (Kayanuala & Quartey, 2000).

An alternative criteria used in defining SME's is the value of fixed assets in the organization. However the National Board for Small Scale Industries (NBSSI 1985) in Ghana applies the fixed assets and number of employee's criteria in defining SMEs.

It defines small and medium scale as one with not more than 9 workers and has plant and machinery (excluding land, building and vehicles) not exceeding 10 million Ghana cedis.

Research ICT Africa (RIA) in a survey published in May 2007, defines small and medium enterprises (SMEs) as an enterprise having less than 50 employees as recommended by the African Development Bank. The definition of SMEs differs by categories, by country and by economic power but the importance of SMEs is critical to the economic development of both developed and developing countries such as Ghana.

Importance of SMEs in Developing Countries

Empirical studies have shown that SMEs contribute over 55 percent of gross domestic product (GDP) and over 65 percent of total employment in high-income countries. In the developed economies, small businesses are recognized as the main engines for growth and development because of their significant contributions to economic growth and prosperity (Frimpong, 2013). Small and medium enterprises (SMEs) are considered the backbone of an economy, whether we are referring to a random state, or if we are talking globally. These companies represent an essential source of economic growth, dynamic and flexibility in advanced industrialized countries, just like they do in emergent and developing economies; SMEs are the dominant form of business organizations, representing roughly 95 upwards of all companies. Regardless of the degree of development and standard of living of the population of a state, SMEs are the biggest contributors to the gross domestic product. In countries like Japan or China (60%) of GDP comes from SMEs, in the USA that percentage goes up to (65%), and in the UE SMEs generate (52%) of GDP (Robu, 2013).

According to the Organization for Economic Cooperation and Development (OECD), SMEs represent more than 95% of enterprises and ensure (60-70%) of the jobs. Small and medium enterprises are the biggest contributors to the employment of labor from a country. On average, the firms with 5 to 250 employees engage (66.76%) of the active population of a state and also responsible largely for new employment. These generate approximately (86.01%) of new jobs (Meghana et al., 2011). Nwosu (1981), stresses that there is widespread acceptance that the ability of any national economy to adapt to change and to continue economic progress is greatly enhanced if there is a continuing growth of new products and new job creation by small-scale enterprises. Owners of small- scale have been in existence all over the world, ever since trade by barter began. They have been accommodating themselves to their circumstances and opportunities of their times and places, carrying over the broad thread of their business affairs from century to century.

In the advanced countries it was essentially the craftsman who gave pedigree to today's manufacturer. Small- Scale enterprises are a good source of private employment and even for some public employees as they provide useful income supplement as a second job (Sowa et al., 1992). SMEs role in Ghana's socio-economic development is not different from other countries. There is ample evidence that small and medium enterprises (SMEs) in Ghana over the years have contributed greatly to the overall employment and production of goods and services. According to Abor and Quartey (2010), small and medium enterprises provides 85 percent of manufacturing employment, contributes about 70 percent to Ghana's Gross Domestic Product and accounts for about 92 percent of businesses in Ghana. Kellick (1978) states that attempts by Ghana to achieve full employment through the public investment in large scale industries could not achieve the desired results.

According to World Bank estimates, most businesses in Ghana, which account for (70%) of employment in the country, fall within the categories of "micro", "small" and "medium" enterprises. Small enterprises in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana (Aryeetey, 2001). Most donor countries and development agencies share the view that the springing up entrepreneurial and innovative ventures help promote economic growth and help reduce the high poverty level in developing economies (Beck & Demirguc-Kunt, 2004). SMEs enhance competition and entrepreneurship and have economy wide benefits in efficiency, innovation and productivity growth therefore direct government support of SME's can help countries reap social benefits especially combating youth unemployment.

The growth of SMEs boosts employment more than the growth of large firms because SMEs are more labour intensive (Snodgrass & Biggs, 1996). Levy and Powell (2005) noted that, SMEs are thought to be flexible and innovative organizations that are able to respond quickly to customer and market demands (flexibility) contrary to what happens in large firms. SMEs and entrepreneurs are bedrocks of new goods and services, new methods of production, the opening up of an economy by setting or opening up of new markets, introduction of new sources of supply as well as industrial re-organisation. SMEs are very important in promoting competitiveness, innovation, creation of employment and are flexible to changing market conditions therefore the performance and development of a national economy depends on the capacity to create an enabling environment for SMEs.

Working Capital Management

Working capital is defined as a company's surplus of current assets over current liabilities, which measures the extent to which it can finance any increase in turnover from other fund sources (Hill, 2013). Geoffrey and Elliot (1969) stated that working capital is customarily divided into two categories: Gross and Net. Gross Working Capital is the sum total of all current assets, while Net Working Capital is the difference between current assets and current liabilities. The Gross Concept deals with the totality of the current assets of the business which includes account receivable, cash, short-dated securities, bill receivable and stock. The gross concept advocates that a firm should possess working capital just adequate and sufficient to meet the firm's operating cycle. It ensures that excess investment in cash is avoided, since excess investment in cash result in excess liquidity resulting in loss of income or profit. This is called optimal level of investment in current assets. The Net Concept on the other hand places emphasis on the continuous liquidity of the firm, the concept advocates a finance of the working capital by a permanent sources of funds e.g. shares, debenture, long term debt, preference share capital retained earnings, etc, the net concept advocates the efficient mix of long term and short term sources of financing working capital (Sunday, 2011).

According to Khan (2007), gross working capital means the total current assets of a business whiles net working capital can be defined in two ways thus the difference between current assets and current liabilities and portion of current assets which is financed with long- term funds. Working capital management can also be looked at from two dimensions thus the internally and externally. The internal takes care of the management of level of investment in current assets and short-term financing as well as the management of operations (that affect the balances of current assets and liabilities) and therefore maximizes the benefits and minimize the cost of the working capital assets and short-term financing (Short-term debts) by taking care of internally generated problems. Externally it manages the firm-supplier and firm-customer cooperation and therefore minimizes the costs of inter-firm transactional relations and thereby results in synergy effects on firm value by taking care of the externally generated problems. This is achieved by reducing inter-firm transaction costs and creates firm value in a win-win condition (Rubin & Alvarez, 1998).

Rubin and Alvarez (1998) They classify the functions of managing working capital internally, the first dimension, into the management of level of current assets, current liabilities and management of operations (that affect the balances of current assets and liabilities) as well as the management of activities of cash payments and cash receipts (as shown in Figure 1). With respect to the working capital management on operations, we concentrate on the operations of purchases and sales and related activities of cash payments and cash receipts.

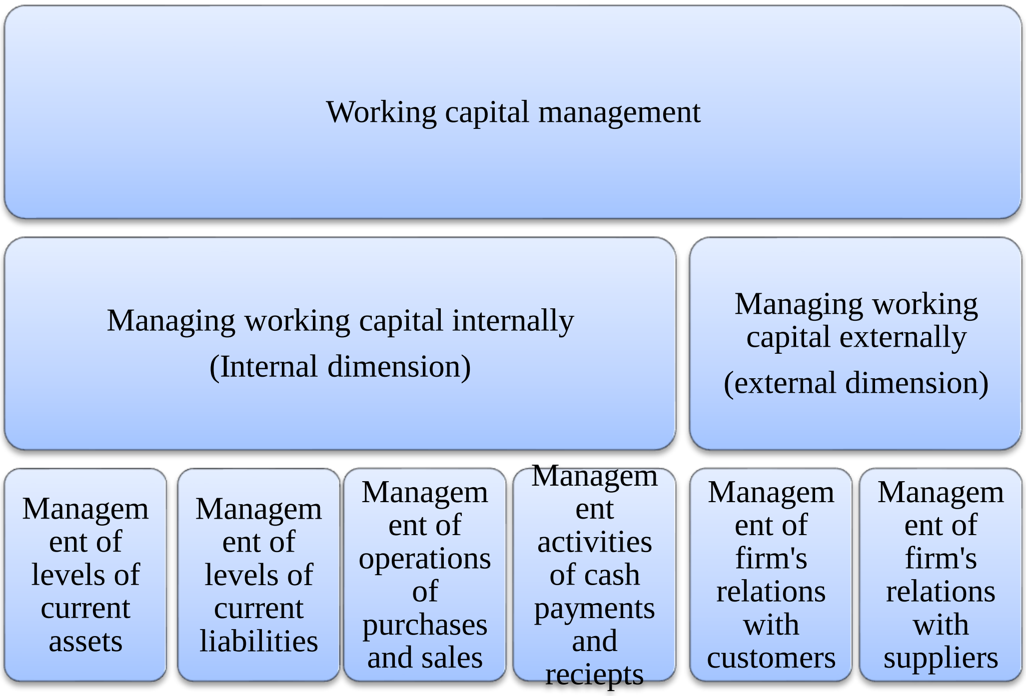

Figure 1: **Two Dimensional Approaches to Working Capital Management (Baig, 2009)**

Source: Baig (2009)

According to Atrill (2006), working capital represents a net investment in short term assets. These assets which are continually flowing (circulating) into and out of the business are essential for day-to day operations. According to (Home, 2000), working capital management is an important aspect of overall financial management, in such instant it of necessity to separate the working capital management from financial decisions and fundamental investment.

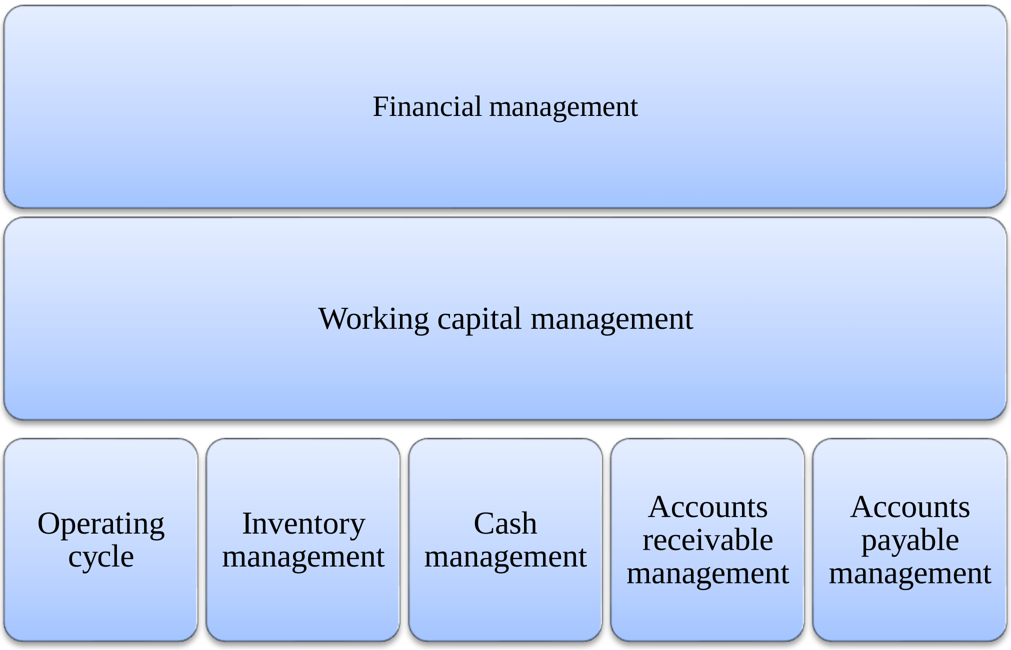

Figure 2: **The Concept of Working Capital Management (Mengesha, 2014)**

Source: Mengesha (2014)

Determinants of Working Capital

Filbeck and Krueger (2005) in their studies concluded that working capital policy is dynamic over time, because it varies with economic cycles. Hill, Kelly and Highfield (2009) showed that the working capital ratio is negatively related to the rate of growth in sales, unexpected demand, rate of interest, and financial difficulties; and it is positively related to operating cash flow and capital market access. Moussawi, Laplante and Kieschnick (2006) in their study focused on some factors that may influence working capital management such as the size of the firm, growth rate of sales, the percentage of outside directors on board, the compensation of executives, directors, and the percentage share of the CEO. They found that the inefficiency of a firm's working capital management is correlated with the size of the firm but not correlated with its industry concentration. Working capital management is determined endogenously by firm specific variables such as size, age, profitability, market share (power), sales growth, operating risk and operating cash Flow and exogenously by macroeconomic factors such as GDP, interest rate and tax rate.

Essence of Working Capital

Writing on the importance of working capital, Baker (1991) argued that working capital constitutes a large portion of the firm’s total assets. Although the level of working capital varies widely among different industries, firms in manufacturing and retailing often keep more than half or their total assets as current assets. In the case of SMEs many of whom have no long term assets such as building and vehicles of their own, the percentage is even higher since the business’ current assets are held in inventory, accounts receivable and bank and cash balance. Working capital management directly affects the firms’ long-term growth and survival. This is due to the fact higher levels of working capital are needed to support sales growth or production. Unfortunately, however, many SSEs operate their businesses without monitoring the employment and utilization of their working capital. In reality, owners of SSEs simply cannot afford to disregard the process of working capital management.

According to Marfo-Yiadom (2002), many SSEs do not keep accounting records on their operations. Thus, in the absence of proper accounting records and information, the SSEs in Ghana face the problem of differentiating clearly between their working capital and profit. Due to this problem, many SSEs tend to collapse few years after they have been established or at best, perform poorly in subsequent years.

Components of Working Capital

Companies must measure risk, develop, and then implement strategies for maintaining a positive cash flow. This strategy is called a working capital management strategy. The goal of an efficient working capital management strategy is to balance current assets against current liabilities so a company may meet its short-term obligations and maintain operating expenses. Two major components of a working capital management strategy are current assets and current liabilities.

Current Assets

Current assets are items that can be turned into cash quickly. Examples of current assets are cash on hand, short-term investments, inventory and accounts receivable. Accounts receivable must be collected in a timely manner, the sooner you receive money owed, the sooner it can be reinvested to earn a profit. Effective inventory management is also essential. The goal is to have enough inventories to complete orders but not an excess. Excess inventory creates additional costs such as paying for storage space and inventory spoilage.

Accounts Receivable

Money owed by customers (individuals or corporations) to another entity in exchange for goods or services that have been delivered or used, but not yet paid for. Receivables usually come in the form of operating lines of credit and are usually due within a relatively short time period, ranging from a few days to a year. On a public company's balance sheet, accounts receivable is often recorded as an asset because this represents a legal obligation for the customer to remit cash for its short-term debts. Gentry et al. (1990) describes that “receivables represent delay in the inflow of cash, which must be financed by the firm”. In another word, if financing sales on credit is not necessary, firms could use these capitals in other purpose of business operation. It means that receivables are an opportunities cost to the firms in economic sense. Shim and Siegl (2000) point out that accounts receivable management includes selecting the good credit customers and speeding up the collections from the customers.

Inventory

Mathur (2003) explains that Inventories as (raw materials, work-in-process, finished goods) make up a large portion of most firm’s current assets, and for many, total assets. As such, the extent to which a firm efficiently manages its inventories can have a large influence on its profitability. Thus, keeping abreast of inventory policy is critical to the profitability (and value) of the firm. Several factors influence the amount of inventory that a firm maintains. The most important of these include:

- Level of sales – typically, the more sales a firm has, the more inventory it holds
- Length of time and technical nature of the production process – The longer it takes to produce finished goods inventories from raw materials, the larger the amount of finished goods that a firm will typically hold (a safety stock). Also, if the production process is highly

technical, requiring that retooling be performed prior to each production run in order to assure that production is meeting specifications, larger amounts of inventory will be produced with each production run in order to minimize the set-up costs associated with retooling.

- Durability vs. Perishability – If an inventory item is highly perishable, such as fresh vegetables, a small amount will be held. Similarly, fashions of clothes and car styles are "perishable" and will result in smaller inventories than durable goods such as tools and hardware.
- Costs – Cost of holding inventories as well as costs of obtaining inventories will influence inventory sizes.

Current Liabilities

A company normally incurs liabilities during the operating period to meet its operations budget. Examples of current liabilities are inventory purchases, employee wages, taxes and accounts payable. Unearned revenue is also considered a current liability, meaning you've been paid for goods or services but have not yet delivered the product. Generally, current liabilities are expected to be paid during a one-year time period. Mathur (2003) explain that there are two major characteristics of current assets. Current assets have comparable shorter life lapse and current assets could be transferred into other forms of assets (and ultimately in cash) much more quickly.

Cash Management

Cash management is seen as one of the key aspects of efficient working capital management. Cash management involves planning and controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time (Pandey, 2004). According to Wetson and Copeland (2008), cash management is concerned with optimizing the amount of cash available, maximizing the interest earned by spare funds not required immediately and reducing losses caused by delays in the transmission of funds. Holding cash to meet short term- needs incurs an opportunity cost equal to the return which could have been earned if the cash had been invested or put to productive use. However, reducing this opportunity cost by operating with small cash balances will increase the risk of being unable to meet debts as they fall due, so an optimum cash balance should be found.

Efficient cash management involves the determination of the optimal cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little (Ross et al., 2011) and as stressed by Atrill (2003), there is the need for careful planning and monitoring of cash flows over time so as to determine the optimal cash to hold. Good cash management can have a major impact on overall working capital management. It is objectively used to manage and determine the optimal level of cash required for the business operation and the investment in marketable securities, which is suitable for the nature of the business operation cycle (Gitman, 2009). Zietlow et al. (2007) explain that "cash management" involves planning for cash inflows and outflows, and determining the optimal balances of cash and near-cash accounts such as marketable securities. Marketable securities are Short-term interest-earning financial claims that can be quickly converted to cash without any significant loss of value.

Ch'ng and Chang (1986) have stated that "cash management, an important aspect of financial planning, has become a common factor for small business failure in Singapore". Some of the most important internal problems identified by Grablowsky and Rowell (1980) which contribute to SME failure are inadequate capital, cash flow management and inventory control. Again cash management practices among SMEs were found to be inadequate in the study done by Grablowsky (1978). In a 1980 study of the cash management practices of small enterprises in Virginia, Grablowsky and Rowell (1980) found that most enterprises did not do forecasting of cash flows, did not use any quantitative techniques to determine cash levels and had no short-term surpluses of cash in their recent history. The study also revealed that SMEs had invested excess cash in earnings securities or accounts (Abanis, Sunday, Burani and Eliabu, 2013). In a1979 study, Cooley and Pullen examined cash management practices of small businesses engaged in petroleum marketing and found out that they had experienced a cash surplus. Also, Murphy's (1979) has found out that active cash management in small enterprises in the UK was unusual, and that there was little inclination to invest surplus cash on a short-term basis.

Managing cash is becoming ever more sophisticated in the global and electronic age of the 1990s as financial managers try to squeeze the last dollar of profit out of their cash management strategies (Block & Hirt, 1992). Abel (2008) argues that cash is crucial in every business in terms of enhancing its survival and prosperity. Marfo-Yiadom (2002) also noted that cash is the hub and most coveted of all the assets of any business. Good cash management can have a major impact on overall working capital management. It is objectively used to manage and determine the optimal level of cash required for the business operation and invested in marketable securities, which is suitable for the nature of the business operation cycle (Gitman, 2009). According to Mclaney (2000), cash is much more than just one element of working capital. As the medium of exchange and store of value, cash provides the linkage between all financial aspects of the firm. More specifically it links short-and long-term financing decisions with one another, with decisions involving investment both in fixed assets and working capital. The term cash refers to the most liquid of assets, including demand deposits, money market accounts and currency holdings. Moyer et al. (1992) observed that cash and marketable securities are the most liquid of the company’s assets. Cash is the sum of currency a company has on hand and the funds on deposit in bank checking accounts. Cash is the medium of exchange that permits management to carry on the various functions of the business organization.

The key elements of cash management are cash forecasting, balances management, administration of cash receipts and disbursements, and internal control (i.e. bank reconciliation) (Gitman, 2009). Inventory management being the coordination of efforts (planning, controlling, organizing, directing) towards achieving efficiency in the procurement, transportation, stocking and utilization of inputs of a manufacturing organization is therefore central to production activities and management.

Firm’s Risk

Nguyen (2005) investigated the hypothesis that cash balances have a precautionary motive and serve to mitigate the volatility of operating earnings. He collected a sample of 9,168 firm-year observations from Tokyo Stock Exchange for the period of 1992 to 2003. Through regression analysis, Nguyen found that cash holdings are positively associated with firm level risk, but negatively related to industrial risk. He also found that cash holding decreases with the firm's size and debt ratio, and increases with its profitability, growth prospects, and dividend payout ratio.

Cash Flow

Cash flow uncertainty affects the cash holdings. Opler et al (1999) explain "uncertainty leads to situations in which, at times, the firm has more outlays than expected. Therefore, one would expect firms with greater cash flow uncertainty to hold more cash. In New Zealand Hofmann (2006) examined the determinants of corporate cash holdings of non-financial firms. His findings suggest that the main determinants of corporate cash holdings in New Zealand firms' are growth opportunities, the variability of its cash flows, leverage, dividend payments, and the availability of liquid asset substitute. Ogundipe, Ogundipe and Ajao, (2012) indicated that cash flows are positively related to cash holdings, large dividend payments and liquid asset substitutes indicate lower cash holdings.

Size of a Firm

Saddour (2006) used regression analysis to investigate the determinants of the cash holdings by collecting data from 297 French firms over a period of (1998-2002) based on the trade-off theory and the Pecking Order Theory. He found that French firms increase their cash level when their activities are risky and the levels of their cash flow are high, and reduce it when they are highly leveraged. Growing companies hold higher cash levels than mature companies. For growing companies, there is a negative relationship between cash and the following firm's characteristics: size, level of liquid assets and short term debt. The cash level of mature companies increase with their size, their investment level, and the payout to their shareholders in the form of dividends or stock repurchases, and decreases with their trade credit and their expenses on research and development.

Afza and Adnan (2007) focused on determining the level of corporate cash holdings of non-financial Pakistani firms, across different firm sizes and different industries. They used dataset for a period of 1998 to 2005 for the firm size, growth opportunities, cash flow, net working capital, leverage, cash flow uncertainty, and dividend payments. They found negative relationships between market-to-book ratio, net working capital, leverage, dividends and cash holdings and positive relationships between firm size, cash flow, and cash holdings. Their findings show that firm size, cash flow, cash flow uncertainty, net working capital, and leverage significantly affect the cash holdings of non-financial firms in Pakistan.

Drobetz and Grüninger (2007) investigated the determinants of cash holdings for a comprehensive sample of 156 Swiss non-financial firms between 1995 and 2004. Through regression analysis, they found that, asset tangibility and firm size are both negatively related to corporate cash holdings. Dividend payments and operating cash flows are positively related to cash reserves. In addition, Drobetz and Grüninger found a positive relationship between i) CEO duality and corporate cash holdings, and ii) a non-significant relationship between board size and corporate cash holdings. That is, CEO duality leads to significantly higher cash holdings and larger board size has no impact on the corporate cash holdings. Hardin III et al. (2009) used a sample of 1,114 firm-year observations for 194 equity real estate investment trusts (REITs) from USA over 1998 to 2006 periods. Through Ordinary Least Square regression analysis, they found that REIT cash holdings are inversely related to funds from operations, leverage and internal advisement, and are directly related to the cost of external finance and growth opportunities. Cash holdings are also negatively associated with credit line access and use. The results imply that REIT managers prefer to hold little cash to reduce the agency problems of cash flow thereby increasing transparency and reducing the future cost of external capital. Megginson and Wei (2010) studied the determinants of cash holdings and the value of cash in China's share-issue privatized firms from 1993 to 2007. Through regression analysis, they found that smaller, more profitable and high growth firms hold more cash. Debt and net working capital are negatively related to cash holdings, while cash holdings decline as state ownership increases.

Chen and Mahajan (2010) investigated corporate liquidity in 15 European Union (EU) countries and 31 non-EU countries from 1994 to 2004. Their findings are three-fold. First, the introduction of the euro and the establishment of the Economic and Monetary Union (EMU) have reduced corporate liquidity in EU. Second, cash and debt are more substitutable in EU than non-EU countries in the transition to the monetary union. Lastly, corporate governance variables such as closely held shares, anti-director rights and creditor rights are important determinants of corporate liquidity and should not be ignored in international corporate liquidity studies.

Leverage

Debt ratio may have an effect on firms‟ wc. Previous empirical studies reveal that firms with increasing leverage decrease their wc levels (Ferreira & Vilela, 2004; Ozkan & Ozkan, 2004). Niskanen and Niskanen 2007 report different findings as Finnish SME firms hold more cash as debt increases. This finding is also supported by the study conducted by researching Spanish SME firms. Teruel and Solano (2008) find that SME firms with more shot-term debt hold more cash. Isshaq, Bokpin and Onumah (2009) examine the interaction between corporate governance, ownership structure, wc, and firm value on the Ghana Stock Exchange. Board size is found to be positively and statistically significantly related to share price among the corporate governance variables. However, a significant relationship between inside ownership and share price is not found. The results also indicate that additional units of cash holdings do not have a statistically significant influence on share price. Finally, leverage and income volatility are found to be significant determinants of share price.

Inventory Management

Inventory management basically aims at providing both internal and external customers with the required service levels in terms of quality, quantity and order fill rate, to ascertain present and future requirements for all types of inventory to avoid overstocking while avoiding bottleneck in production and to keep costs to a minimum (Sharif, 2011). Inventory refers to totality of stocks, being held by a business enterprise at a particular time. The following groups of inventory are of concern to managers in manufacturing organizations, Raw materials, In-progress or semi-finished goods, finished goods. Other stocks such as: tools, spare parts and production consumables (Akindipe, 2014). According to Chan and Wang (2014) in enterprise resource planning systems, the record of inventories is often not equal to the real quantities of inventories. So was Rajeev (2008), who observed that even in an inventory intensive manufacturing industry sector, Inventory Management practices were poor. He went further that the use of formal practices for managing inventories was also inadequate. In the same vein, inventory management (IM) practices of small and medium scale enterprises in Finland and Greece were studied by Chikan and Whybark, (1990) to identify the experiences of managers concerning IM. The findings revealed that IM decisions are made at the operational level with minimal guidance from the top. According to Sprague and Walker (1996), making use of formal Inventory Management (IM) practices is one of the ways to acquire competitiveness among others, by effectively managing and minimizing inventory investment**.**

IM practice implementation involves providing high quality products at relatively less cost (Maria & Jones, 2003). Ballou, (2000) argues that inventory cost should be considered while taking inventory decisions. He found that inventory carrying costs typically range from 20% to 40% of inventory value. Palmer and Dean (2000) observed that selection of right IM practice is a must for a company's IM performance. This would lead to advantage on the inventory cost. Inventory costs are reduced as materials spend less time in the system. The importance of lead-time as a measure of inventory effectiveness has been mentioned by Rabinovich, Martin and Philip (2003). Partington and Sculli (1993) are of the opinion that long lead times and large usage fluctuation call for higher re-order stock levels and vice-versa. Chandra and Grabis (2005), stress that a reduction in the inventory replenishment lead-time allows reducing safety stock and improving customer service.

Maria and Jones (2003) argue that implementation of proper IM practice involves providing high quality products at relatively less cost. On the over hand, Wallin et al. (2006) are of the opinion that the lead-time is a good measure of inventory effectiveness. Wallin, Rugtusanatham and Rabinovitch (2006) also view lead-time as an important inventory element. Elorantha and Raisanen (1988) argue that one of the reasons for keeping large amount of inventory items has been related to customer service. Another reason is that smaller purchasing lots imply more work in purchasing department. However, Toelle and Tersine (1989) argue that excess inventory is an operational liability, because it uses valuable storage space, increases inventory costs. Raw material ordering frequency is identified as an important factor contributing to inventory cost. Frequent ordering in small quantity is considered as an important strategy.

This is very relevant in the context of SMEs because SMEs generally don't get the benefits of quantity discount. Their purchase requirement quantity of material is normally less to enable them to get these benefits. A project to improve IM in a UK based SME found the importance of categorizing stock and setting ordering policies. A scheme developed for the above purpose found useful in optimizing inventory costs (Flores, Wang & Burgess, 2003). Koumanakos (2008) in his study aimed at testing the hypothesis that efficient IM leads to an improvement in a firm's financial performance. The results revealed that the higher the level of inventories preserved, departing from a lean manufacturing, by an enterprise the lower is its rate of returns.

Receivable Management

The whole system of receivables management should be directed to timely payment of as large part of receivables as possible, and to keeping the costs related with receivables management (i.e. costs of prevention, monitoring and collecting of receivables) to the minimum (Kubíčková, 2013). Good management of receivables does not mean management of receivables only in the situation of late payment or default to pay. It means creation of a whole system of commercial relationships management so that to prevent maximally the risk of late or default payments together with optimizing of the costs for this area management, and on the other hand to facilitate the ability to pay own payables in time. The whole system of receivables management should be directed to timely payment of as large part of receivables as possible, and to keeping the costs related with receivables management (i.e. costs of prevention, monitoring and collecting of receivables) to the minimum. Accounts receivable represent the amount due from customers (book debts) or debtors as a result of selling goods on credit. “The term debtors is defined as ‘debt’ owned to the firm by customers arising from sale of goods or services in the ordinary course of business.” The three characteristics of receivables the element of risk, economic value and futurity explain the basis and the need for efficient management of receivables (chandra, 2008).

Receivables management, also termed as credit management, deals with the formulation of credit policy, in terms of liberal or restrictive, concerning credit standard and credit period, the discount offered for early payment and the collection policy and procedures undertaken. A firm’s investment in account receivable depends upon how much it sells on credit and how long it takes to collect receivable. Accounts receivables (or sundry debtors) constitute the 3rd most important assets category for business firm after plant and equipment and inventories and also constitute the 2nd most important current assets category for business firm after inventories (bolten, 1976). Poor management of accounts receivables are: neglect of various overdue account, sharp rise in the bad debt expense, and the collection of debts expense and taking the discount by customers even though they pay after the discount date and even after the net date.

Factors involving in Receivable management: 1.The terms of credit granted to customers deemed creditworthy. 2. The policies and practices of the firm in determining which customers are to be granted credit. 3. The paying practices of credit customers. 4. The vigor of the sellers, collection policies and practice. 5. The volume of credit sales

Credit Management

In order that the credit sales are properly managed it is necessary to determine following Credit Policy, Credit Evaluation of Individual Buyers, Credit Sanction Decisions, Control and Monitoring of Receivables.

Empirical review

Samra Kiran, Shahid Jan Kakakhel and Farzana Shaheen (2015) investigated the impact of corporate social responsibility (CSR) on firm's profitability, in the case of 10 companies of oil and gas sector that are listed on KSE. The study covered 8 years period from 2006-2013. Furthermore, correlation and regression test were used to analyze the data. He investigation said that there is an insignificant impact of CSR activities on firms profitability and a negative correlation between total asset and CSR furthermore, it was recommended that a positive correlation between Net profit and CSR.

Sahar and Yalali (2014) investigated the effect of R&D expenditure on firm's profitability and value of stock in I ran' capital market. The sample contains 86 companies from the stock exchange of Tehran that cover the 5 years period from 2005-2008. To get the finding regression model was used and it has been observed that if companies want to earn an additional profit in future so, they have to spend on R&D activities in current years. Therefore, it proves that there is a direct relationship between R&D expenditure and profitability.

Tufail (2013) determined the impacts of WCM policies on profitability.117 textile firms were selected from KSE and the data was taken from the year 2005-2010. The result that is found by analyzing data through regression model shows that policies of WCM are negatively impacting on profitability. Moreover, the size and liquidity have a positive relationship with firm's profitability but a negative correlation between debt to equity and profitability has been observed.

Rehman and Anjum (2013) conducted an empirical study on the impact of assets management on firm's profitability in the case of Pakistani cement companies. The data was collected from financial reports from 2003-2008 of 10 sample companies. The results analyze by correlation and regression method and it is found that there is an opposite and positive connection between working capital management and firm’s performance.

Agyemang and Asiedu (2013) studied the relationship between profitability and WCM of manufacturing companies of Accra metropolis listed in Ghana Stock Exchange for the period of 2007-2011. It was found by the study that there is a significant impact of CCC, inventory days and account payable on manufacturing companies’ profitability. The study suggested that a good policy should be adopted by companies for managing components of WCM.

Ahmed (2013) examines the impact of working capital management (WCM) on the firms' performance by using the financial statement data of 253 non-financial firms listed in Karachi Stock Exchange (KSE). The Data was analyzed by Or-dinary Least Square (OLS) logistic regression and Pearson's correlation. The result seems that current asset to total sales has a negative relation with profitability while, WCM has a positive relation to the firm's performance. However, the lo-gistic result gives the suggestion that firm profitability is highly determined by the current ratio, assets to total asset & total sales ratio.

Muhammad (2012) explored the effect of WCM on firm's liquidity and profitability in the case of 18 companies of other food sector that are listed on KSE. 2006-2010 time periods had been covered in this study. And To analyze the data pooled least regression and common effect model were used. A positive relationship is found between WCM on profitability and liquidity of firms. Moreover, it has also been observed that the size of the firm and Cash Conversion Cycle has a sig-nificant positive effect while the financial asset to total asset ratio and the size of the firm has a positive relationship.

Azam (2011) explored the impact of WCM on the firm's performance. 21 (KSE-30) listed non-financial institutions were selected and the data was taken from the year 2001-2010. The result that are achieved by using Canonical Correlation shows a positive impact of WCM on firm's profit-ability and it was suggested that by reduction in inventory size, NTC, and CCC managers be able to increase the value of shareholder.

Sayeda Tahmina Quayyum (2011) scrutinizes the efficiency and effectiveness of Working Capital Management by maintaining liquidity on

Profitability. For this reason cement sector listed in a Dhaka stock exchange was selected that analyze the data from 2005-2009 through person correlation model. The study shows a significant relationship between WCM and Profitability as well as Liquidity indices.

Magpayo (2009) examined the effect of financial leverage on firm's performance and WCM by using Philippines 110 firms randomly chosen from top 1000s Philippine firms in the business world.2009 data was used for analyzing this study by the testing methodology of Pearson correlation, ANOVA test, and multiple regressions. It has been showed in the study that there is a direct relationship between the policy of WCM of firm's financial leverage and size with profitability. Moreover, the study of the data said that firm's size and WCM has a positive effect on firm's net income, whereas net income has a negative effect on financial leverage and ROE has an insignificant positive effect on financial leverage.

Chapter Summary

This chapter has discussed the of management working capital practices of SMEs by discussing the theories, concepts and empirical review. From the above review, on both the theoretical and empirical side, the literature revealed that SMEs' operations is greatly influenced by effective working capital management practices. Indeed, empirical studies on analysing working capital management practices among SMEs for developing countries cases including Ghana using quantitative approach or methodology have been very elusive.

CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter presents the research methods employed to carry out this study. This specifically includes the research design, target population, sample size, sampling and sampling technique, data collection method and procedure, and data processing and analysis as well as summary of the chapter.

Study Area

Agona West Municipal Assembly (AWMA) was created out of the former Agona District Assembly in 1920. AWM is one of the twenty (20) political and administrative districts in the central region of Ghana. The district capital is Agona Swedru and the district has one (1) urban council and five (5) zonal councils. The population of Agona West Municipality according to the 2010 population and housing census is 115,358 of which males constitute 46.9 percent and females represent 53.1 percent. The municipality is predominantly urban with over 76.6 percent residing in urban localities. About 72.2 percent of the population are aged 15 years and over and are economically active of which 94.6 percent are employed. 34 percent of the employed are engaged in skilled agricultural, forestry, and fishing, 27.3 percent are into service and sales, 16.9 percent in craft and related trade, 11 percent are engaged as managers, professionals and technicians (GSS, 2010). This study focused on the SMEs in the Municipality simply because these businesses have made significant impact in the area. However, some of them do face challenges in terms of financing which has prompted this study.

Population

The population comprised owners, managers and accountants of SMEs operating within the Agona West Municipal assembly as these were deemed to be the decision-makers of the businesses hence ought to be familiar with the working capital management practices of the entities. They totaled 300 which constitute the target population (NBSSI, 2016).

Research Design

The research design adopted was survey research design. This design was selected because of the fact that, it is a small scale study of relatively short during and it involves a systematic collection and presentation of data to give a clear picture of a particular state of affairs (Bryman & Cramer, 2012). It was meant to get relevant information connected to management of working capital of small and medium scale enterprise in the Agona West Municipality. Creswell (2008) defined a survey design as 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 questions of people. The study chose the survey method due to the population of Three Hundred (300) small and medium scale enterprises and because of their direct relationship with the problem identified. However, this design as used in the study has some weaknesses. The key weakness being that the responses to the questionnaire were largely an expression of these small and medium enterprises owner / manager operations opinions about how they manage their working capital.

Sampling Procedure

A target sample of 155 respondents based on the Krejeice and Morgan (1970) sample size determination table from the SMEs was selected based on a given acomprehensive list of all SMEs operating in the Agona West Municipality. To achieve this target, 155 respondents were approached. The stratified sampling technique was used. The aim of the stratified sampling technique was to reduce the potential for human bias in the selection of cases to be included in the sample. As a result, the stratified sampling technique provides a sample that is highly representative of the population being studied. Thus, the population was categorised according to the local governance divisions of the municipality. This comprises the Swedru main Municipality, Nyakrom Urban Council and five Zonal Councils of the municipality. Respondents were located from SMEs within these councils.

Table 1: Population Strata and Correspondent Respondents

Urban/zonal council	Frequency	percentage
Swedru main	50	32
Nyarkrom urban council	25	16
Zonal council 1	12	8
Zonal council 2	20	13
Zonal council 3	20	13
Zonal council 4	15	10
Zonal council 5	12	8
Total	154	100

Source: Field Data (2020)

Table 1 shows the population divided into strata, the number of respondent from each stratum and the percentage thereof. The number of respondents selected in each stratum gives a representative of the population in the stratum.

Data Collection Instrument

The study used questionnaire as the instrument for data collection. . It serves the following purposes: to collect the appropriate data comparable and amenable to analysis, minimize bias in formulating and asking question, and to make question engaging and varied. The questionnaire started with the purpose of the research and assurance of confidentiality. The questionnaire, which was the main technique for data collection, it comprised of both close and open ended questions and they were administered to the targeted population as the primary data. The study used both secondary data and primary data, secondary data was sourced from financial records of SMEs which consisted of financial statements, budgets and monetary records, cash flow statement, asset register, tax schedule and any other relevant records made available by respondents. In addition government agencies and local authorities which had some responsibilities on SMEs within the catchment area of the population provided secondary data. Primary data was mainly sourced through the use of research questionnaire.

Data Collection Procedures

To facilitate easy collection of the questionnaire, the researcher handed over a letter of introduction obtained from the Department of Finance, University of Cape Coast, Business of School, to the owners of the enterprises. Researcher engaged two research assistants who helped in the collection of data. The questionnaire was presented to ensure their consistency and reliability where necessary, effected their early modification. The design and contents of the questionnaire were based on the research questions and objectives. The questionnaire was administered personally by the Researcher and the two research assistants on the sample selected. Data collection process commenced with the identification of potential respondents within each stratum. The researcher went to the premises of the potential respondents, explained the purpose of the study, and ethical considerations such as anonymity of respondents, confidentiality of information divulged as well as the limited risk in participating in the research. The potential respondents were, then, requested to indicate their willingness to participate in the study. Where the potential respondents agreed to participate, the researcher administered the questionnaire by reading the questions to the respondents and recorded their responses.

Data Processing and Analysis

The researcher and the assistants distributed the questionnaire to the sample respondents on the first visit and time was given for its collection. Contacts were made to all the leaders of the various SMEs through the list provided by NBSSI in Agona West District. A follow up was made to a cross section of respondents in order to help them with the filling of the questionnaire. The third visit was used to collect the questionnaire. In this study, the data that was gathered from the field of study was edited to ensure that the questionnaire had been properly completed and contained accurate information. The data was then coded and entered on the computer. The Statistical Package for Social Science (SPSS) was used for processing data in terms of coding, entry and processing. The data analysis was done by using relevant descriptive statistics such as frequencies.

Ethical Considerations

The study relied on the responses of respondents. This study sought to comply with ethical standards devoid of any liabilities to the respondents and also administered clear a questionnaire intended to derive the needed response. Thus, the study assured the respondents that whatever they said by way of information would remain confidential. The purpose of the study was explained to the respondents. This was done to avoid deception. Not only the above, the study also sought to consent of the appropriate authorities before collecting the data. As a result, the respondents gave out information voluntarily for the study. The goal of ethics in research is to ensure that no one is harmed or suffered adverse consequences from participating in research activities.

Chapter Summary

This chapter presented the research methods appropriate for conducting the study. This study followed the relevant literature to design the appropriate research instrument for the study. Questionnaire was used for collecting the data from the field. The study used both primary and secondary data from the various cross-sections where a sample size of 155 respondents was selected for the study. A probability sampling technique was used. Furthermore, the study adopted the deductive approach and used a survey research design to study the variables. Lastly, the data were processed using the Statistical Product for Social Sciences (SPSS) software and analysis was done using descriptive analysis.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents the analysis of the data. It uses descriptive statistics, simple percentage and frequencies to describe the data which have been collected. It was mainly based on the questionnaires administered to the respondents. Out of the 300 questionnaires administered, 154 were retrieved, thus, about 60 percent of response rate. The results were presented based on the objectives of the study.

Demographics of Respondents

Table 2 describes the gender of the respondents. From Table 2, it can be shown that 99 respondents, representing 64 percent were males and 55 respondents, representing 36 percent representing 55 respondents were female. The results implied that, male respondents were more that their female counterparts in the study area.

Table 2: Gender of Respondents

Gender	Frequency	Percentage
Male	99	64
Female	55	36
Total	154	100

Source: Field Data, Akuffo Addo (2020)

Table 3 shows the age range of respondents contacted in the study area. From the results, 58 respondents, representing 38 percent were aged within the range of 30 to 39 years, whereas 48 respondents, representing 31 percent had ages within the range of 20 to 29 years. Further, 34 respondents, representing 9 percent were within the ages of 40 to 49 years and finally, 14 of the respondents, representing 9 percent were aged 50 years and above. The results implied that those within 30 to 39 years were more followed by 20 to 29 years, by 40 to 49 and finally, by 50 years and above. This means majority of the SSMEs operators are in their youthful years which is good for private sector development and the country at large.

Table 3: Age of Respondents

Age	Frequency	Percentage
20 to 29	48	31
30 to 39	58	38
40 to 49	34	22
Above 50	14	9
Total	154	100

Source: Field Data, Akuffo Addo (2020)

Table 4 also describes the educational background of the respondents. From Table 4, it can be shown that, 51 respondents, representing 33 percent had tertiary education mostly a Bachelor's Degree and HND. Also, 103 respondents, representing 67 percent had Secondary, Basic and some form of Technical education. Respondents with secondary education had the highest frequency with 71 respondents representing 46percent. The results implied that majority of the respondents are highly educated which shows their financial literacy level for effective working capital management within the respective SMEs.

Table 4: Level of Education

Category	Frequency	Percentage
Tertiary (University Degree)	20	13
Tertiary (Others)	31	20
Secondary	71	46
Basic School	18	12
Technical and Others	14	9
Total	154	100

Source: Field Data, Akuffo Addo (2020)

SMEs Features

Table 5 presents the forms of business engaged in by respondents. From the results, it can be realized that, 108 respondents, representing 70 percent have their business form as sole proprietorship and enterprise (sole proprietorship registered as enterprise). In addition, 31 respondents, representing 20 percent have their business in the form of company and while 15 of them, representing 10 percent have their in the form of partnership. The implication is that, respondents operating sole proprietorship and enterprises are more compared to those operating company and partnership.

Table 5: Business Form (SMEs)

Form of Business	Frequency	Percentage
Enterprise	42	27
Sole Proprietorship	66	43
Partnership	15	10
Company	31	20
Total	154	100

Source: Field Data, Akuffo Addo (2020)

Table 6 describes the business type of respondents. According to Table 6 respondents' businesses range restaurants and bars(6 percent); retail and wholesale of building materials (7 percentage); grocery shops and supermarkets (20 percent); auto mechanics, welders and sprayers (10 percent); block manufacturers (2 percent); bakeries (5 percent); boutique shops(8percent); pharmacy and chemical sellers shops(14 percent); others(28 percent).

Table 6: Type of SMEs Business

Type of Business	Frequency	Percentage
Restaurant and bars	9	6
Building materials	11	7
Groceries shops and supermarkets	31	20
Mechanics/welders/sprayers	15	10
Block manufactures	3	2
Bakeries	8	5
Boutiques	12	8
Pharmacies/ chemical sellers	22	14
Others	43	28
Total	154	100

Source: Field Data, Akuffo Addo (2020)

Table 7 shows the number years respondents' business have been in existence. Table 8 indicates that 88 percent representing 135 respondents business have been in existence for less than 15 years while 12 percent have been in existence for over 15 years.

Table 7: Number of Years in Existence

Years	Frequency	Percentage
0 to 5	32	21
6 to 15	103	67
Above 15	19	12
Total	154	100

Source: Field Data, Akuffo Addo (2020)

Table 8 shows that all respondents' businesses have been registered with an institution of government. 11 percent have registered with the municipal assembly only; 36 percent with NBSSI, Municipal Assembly and Register General; 26 percent with NBSSI and the assembly; 27 percent are registered with the municipal assembly and NBSSI. Also table 4.7 indicates that all respondents businesses are registered with the municipal assembly, 73 percent are registered with the Registrar General and 74 percent are registered with the NBSSI.

Table 8: Registration of Business

Institutions	Number of respondents	Percentage
Local Assembly only	17	11
Registrar General only		
NBSSI only		
Local Assembly and Registrar General	40	26
Local assembly and NBSSI	42	27
Local Assembly, Registrar General and NBSSI	55	36
Total	154	100

Source: Field Data, Akuffo Addo (2020)

Working Capital Management of SME Opreators

This section presents results on working capital management based on the stated objectives. This indicates, financial record keeping, forms financial records, training and workshop on financial management, and computer literacy of the respondents as indicated in Table 9. Table 9 shows that SMEs keep financial records. All the 154 respondents affirmed that the SMEs keep some form of financial records. From Table 9, it can be shown that, the form of financial records differ among the SMEs. Thus, 31 respondents, representing 20 percent stated that their businesses kept records in the form of financial statements, 71 respondents, representing 46 percent kept records in the form of cash payments and receipts while 34 percent recorded financial transactions in other forms. This implied that majority of the respondents were familiar with cash payment and receipts record keeping.

Table 9: Financial Record Keeping Practices

Financial Records	Frequency	Percentage
Financial Record Keeping		
Yes	154	100
No	0	0
Forms of Financial Records		
Financial statement	31	20
Cash payment and receipts	71	46
Other form of financial records	52	34
Training and workshop on financial management		
Yes	24	16
No	130	84
Computer Literacy		
Yes	78	51
No	76	49

Source: Field Data, Akuffo Addo (2020)

In addition, from Table 9 above, 84 percent representing 130 of the respondents stated that they have not attended any workshop on financial management and reporting as shown by table 4.10. 16percent of the respondents stated that they have received training and or attended workshops on financial management and reporting. The results in Table 12 show that 51 percent representing 78 respondents are computer literate while 76 of them, representing 49 percent did not know how to use computers. This implied that majority of the respondents are computer literate which is an impetus for their growth. Finally, Table 9 indicates that 36 percent of respondents use computers in recording financial transactions while 99 of them representing 64 percent do not use computers in recording their financial transactions. These results are in line with the findings by Ahmed (2013) and Faden (2014).

Cash Management Practices of SME Operators

This section presents the cash management practices of the SMEs operators which is in line with the stated objectives. Table 10 indicates that all SMEs have bank accounts as 100 percent of respondents affirmed. The results are in line studies by Agyemang and Asiedu (2013) and Azam (2011).

Table 10: Cash Management Practices of SME Operators

Bank accounts	Number of respondents	Percentage
Bank Accounts of SMEs Operators		
Yes	154	100
No	-	
Business and Owner's Bank Accounts		
Yes	97	63
No	57	37
Criteria for selecting Banks		
Easy access to loans	28	18
High interest on savings and deposits	37	24
Proximity to bank	20	13
Bank reputation	69	45

Source: Field Data, Akuffo Addo (2020)

From Table 10, it can be seen that, on the criteria SMEs use to select banks, the results indicates that bank reputation is more important thus 45 percent of respondent affirmed this. High interest on deposits, easy access to loans and proximity to bank follow in that order

From Table 11, 60 respondents, representing 39 percent of SMEs have bank cash receipts weekly, 25 percent as many times as needed, 15 percent monthly, 14 percent daily and 6 percent every two weeks. The results are line with studies by Muhammad (2012) and Ahmed (2013) who concluded that setting criteria must be followed by SMEs in selecting bank accounts.

Table 11: Banking Cash Receipts and Reconciliation by SMEs

Frequency of banking cash receipts	Frequency	Percentages
Banking Cash Receipts		
Daily	22	14
Weekly	60	39
Fortnightly	10	6
Monthly	23	15
As many times as needed	39	25
Bank Reconciliation by SMEs		
Yes	59	38
No	95	62

Source: Field Data, Akuffo Addo (2020)

Table 11 also presents the results of the bank reconciliation undertaken by SMEs. The question demanded yes or no responses. The results indicate that 59 respondents, representing 38 percent reconcile cash balances with bank statement balances in their operations while 95 of them representing 62 percent do not. This also confirmed what found by Mathur (2003).

Table 12 shows that the bank reconciliations are mostly done on a monthly basis by SMEs. Thus, 49 of the respondents representing 83 percent of the respondents affirmed. 17 percent of respondent indicated that bank reconciliations are done as and when the need arises. Part Sökmen and Çetenak (2008) also found that a lot of SME operators reconcile their banks on monthly basis which confirmed the results of this study.

Table 12: Frequency of Bank reconciliation and Cash Budget Preparation by SMEs

Frequency of bank reconciliation	Frequency	Percentage
Frequency of Bank reconciliation by SMEs	-	
Weekly		
Monthly	49	83
Yearly	-	
As and when	10	17
Cash Budget Preparation by		
SMEs	71	46
Yes	83	54
No		
Total	59	100

Source: Field Data, Akuffo Addo (2020)

Table 12 also indicates that 83 of the respondents, representing 54 percent operating SMEs do not prepare cash budget whereas 71 of them representing 46 percent prepare cash budget. The results are line with a study by Tufail (2013).

Table 13 shows that 49 respondents, representing 32 percent spend according to their cash budget while 105 of them, representing 68 percent representing do not always spend according to their cash budget.

Table 13: Planned Spending based on Budget and Cash Budget Review

Planned spending	Frequency	Percentage
Planned Spending based on Budget		
Always	49	32
Sometimes	105	68
Not at all	-	-
Cash Budget Review		
4 times	4	3
2 times	7	5
Once	33	21
Never	110	71

Source: Field Data, Akuffo Addo (2020)

Further, Table 13 shows that 29 percent review their cash budget thus 3 percent 4 times, 5 percent 2 times and 21 percent ones in a year. 71 percent representing 110 respondent do not review their budget.

Table 14 presents the results of the motives for SMEs to hold money and cash shortage experienced by SMEs. From the results, it can be seen that, the main motive of SMEs keeping cash is for transaction thus 74 percent representing 114 respondents. Keeping cash for investment purposes is the next important motive for holding cash by SMEs, 20 percent of respondent agreed to this. This finding is in line with that of Ogundipe, Ogundipe and Ajao (2012).

Table 14: Motives of Holding Cash by SMEs

Motives	Frequency	Percentage
Motives of Holding		
Cash	114	74
Transaction motive		
Speculative motive	9	6
Investment motive	31	20
Cash Shortages		
Yes	129	84
No	25	16

Source: Field Data, Akuffo Addo (2020)

The results in Table 14 indicate that most SMEs experience cash shortages, thus, 84 percent representing 129 respondents whereas 25 percent of the respondents indicated their SMEs do not experience cash shortages. This implied that majority bof the SMEs operating do experience shortages of cash.

In dealing with cash shortages, Table 15 presents the results. In Table 15, it can be seen that shows that SMEs overcome cash shortages by borrowing from non-banking financial services providers (42 percent), borrowing from friends and relatives (23 percent) and borrowing from banks (20 percent). However, 15 percent wait till their businesses generate cash through sales.

Table 15: Dealing with Cash Shortages by SMEs

Response	Frequency	Percentage
Borrowing from bankers	26	20
Borrowing from friends and family	30	23
Financial service providers	54	42
Wait till the business generate cash through sales	19	15
Total	129	100

Source: Field Data, Akuffo Addo (2020)

Table 16 indicates that 83 respondents, representing 54 percent invest back surpluses into their business, 28 percent deposit into their bank accounts while 18 percent invest in government treasury bills through their bankers.

Table 16: Dealing with Cash Surplus by SMEs

Response	**Number of respondents**	**Percentage**
Invest in treasury bills	28	18
Deposit in accounts	43	28
Invest in business	83	54
Total	154	100

Source: Field Data, Akuffo Addo (2020)

Receivable Management Practices of SME Operators

This section deals with cash receivable management practices of the respondents which addressed the objectives stated. The results in Table 17 reveal that 90 percent of SMEs representing 139 respondents sell on credit out of the 154. 15 respondents representing 10 percent of SMEs sell only on cash basis. The results are in line with the study by Shim and Siegel (2000).

Table 17: Receivable Management Practices by SMEs

Response	**Frequency**	**Percentage**
Credit Sales		
Yes	139	90
No	15	10
Percentage of Sale on Credit		
1 to 20	128	92
21 to 40	10	7
41 to 60	1	1
Above 60	-	-
Credit Policy		
Yes	49	35
No	90	65
Credit Policy when Extending Credit		
Always	33	67
Sometimes	16	33
Never	-	-

Source: Field Data, Akuffo Addo (2020)

Table 17 also shows that 128 respondents, representing 92 percent who sell on credit have less than 21 percent of total sales as credit while 10 of them, representing 7 percent indicated that their SMEs sell about 21 to 40percent of their total sales as credit.

Table 17 also indicates that 90 of the respondents, representing 65 percent indicated that their SMEs do not have an established credit policy with which to follow in granting credit to customers while 49 of them representing 35 percent of SMEs operators who sell on credit have an established credit policy. This is in line with the findings by Ashvinkumar (2009). The results in Table 17 show that 67 percent of SMEs with a credit policy always follow the policy when extending credit to customers. Also, 33 percent of respondents indicated that SMEs do not always follow their establish credit policy in grant credit to customers. Table 18 reveals that the main criteria by which credit is extended to customers by SMEs in order of importance are; customers' ability to pay (45 percent); relationship with customer (28 percent); previous records of customer (27 percent).

Table 18: Basis for SMEs Extending Credit, Bad Debt and Receivable Aging Schedule

Response	Frequency	Percentage
Basis for SMEs Extending Credit		
Customers' ability to pay	62	45
Relationship with customer	39	28
Previous records of customer	38	27
Others	-	-
Dab Debt Receivable		
Yes	139	100
No	-	-
Receivable Aging Schedule		
Yes	11	8
No	128	92

Source: Field Data, Akuffo Addo (2020)

Table 18 also reveals that SMEs who sell on credit are unable to collect some of their debt. This is indicated by the 100 percent response of the respondents. The results in Table 18 indicate that for SMEs who sell on credit only 8 percent prepare receivables aging schedule. 92 percent of respondents indicate SMEs do not prepare receivables aging schedule.

It can be seen from Table 19 that 71 respondents, representing 51 percent of SMEs who sell on credits extend credit to a period of 1 month, 43 respondents, representing 31 percent give 3 months credit period, and 19 respondents, representing 14 percent extend credit for 6 month and finally, 6 respondents, representing 4 percent give more than 6 months credit period.

Table 19: Credit Period Granted by SMEs

Credit period	**Frequency**	**Percentage**
One month	71	51
Three months	43	31
Six months	19	14
Over six months	6	4
Total	139	100

Source: Field Data, Akuffo Addo (2020)

The results in Table 20 reveal that in order of importance the main debt collection strategies preferred by SMEs are; follow up calls (58 percent); threat of court action (27 percent) and court action (15 percent).

Table 20: Debt Collection Strategy by SMEs

Response	Frequency	Percentage
Follow up calls	81	58
Threats to use court action	37	27
Debt collection agency		
Court action	21	15
Total	139	100

Source: Field Data, Akuffo Addo (2020)

Inventory Management Practices of SME Operators

This section presents results relating to inventory management practices which addressed the objective four of the study. Table 21 shows that 73 percent representing 112 respondents indicated that SMEs do not follow any specific inventory management practice, 22 percent follow a specific rule of thumb and

5 percent follow inventory management practice of always better control. The results are in line with studies by Pobosky (1992), Akindipe (2014) and Chan and Wang (2014).

Table 21: Inventory Management Practice followed by SMEs

Response	Frequency	Percentage
No practice	112	73
Rule of thumb	34	22
Economic order quantity		
Always better control	8	5
Just in time		
Computerized inventory management		
Total	154	100

Source: Field Data, Akuffo Addo (2020)

According to Table 22, 60 percent of SMEs keep inventory at their business premises, 28 percent keep inventory at warehouses owned by the SMEs themselves and 12 percent keep inventory at public warehouses.

Table 22: Keeping of Inventory by SMEs

Response	Frequency	Percentage
Business premises	92	60
Own warehouse	43	28
Public warehouse	19	12
Total	154	100

Source: Field Data, Akuffo Addo (2020)

The results in Table 23 show that in order of importance the levels of inventory are influenced by availability of funds to buy inventory according to

35 percent of respondents. Additionally, 29 percent of respondents suggest that previous experience is the most important factor in determining inventory levels. However, 22 percent of respondent feel that SMEs follow rule of thumb in determining inventory levels. these results confirm a study by Sharif (2011).

Table 23: Determination of Inventory Levels by SMEs

Determinants	**Frequency**	**Percentage**
Rule of thump	34	22
Previous experience	45	29
Seasonal changes	21	14
Availability of funds to buy inventory	54	35
Others		
Total	154	100

Source: Field Data, Akuffo Addo (2020)

The results in Table 24 show that 105 respondents, representing 68 percent review their inventory levels whereas 32 percent of SMEs do not review inventory levels.

Table 24: Reviewing Inventory Levels, Strategies for managing Inventory shortages and Stock Taking by SMEs

Response	Frequency	Percentage
Inventory Levels		
Yes	105	68
No	49	32
Strategies		
Panic purchases	26	16
Customer referrals	49	32
Follow normal procurement practice	79	52
Stock Taking		
Yes	154	100
No	-	-

Source: Field Data, Akuffo Addo (2020)

Table 24 indicates that in order of importance, 79 respondents, representing 52 percent just follow their normal procurement process, while 49 respondents, representing 32percent purchase from competitors to supplier customers, and finally 26 respondents, representing 16 percent make panic purchases. The results in Table 24 also reveal that SMEs take stock during the year as 100 percent of respondent indicated.

Table 25 reveals that 57 percent of SMEs take stock as and when necessary while 35 percent do continuous stock taking and 8 percent of SMEs do periodic stock taking.

Table 25: Type of Stock Taking by SMEs

Type of stock count	Frequency	Percentage
Periodic	12	8
Continuous	54	35
As and when necessary	88	57
Total	154	100

Source: Field Data, Akuffo Addo (2020)

Payables Management Practices of SME Operators

This section presents the results of the last objective relating to account payable management practices. The results in Tables 26 and 44 deal with supplier selection, cash purchases and the extent of credit period granted by suppliers. The results in Table 26 indicate that in order of importance 96 respondents, representing 62 percent of SMEs believe that cost of supplies is the major determinant in selecting suppliers while reliability of suppliers and proximity of suppliers are 23 and 15 percent respectively. The findings are in line that of Pandey (2004) and Wetson and Copeland (2008). Table 26 also indicates that 136 respondents, representing 88 percent do not only purchase in cash whereas 18 respondents, representing 12 percent indicated that their SMEs do cash purchases only. Finally, Table 26 reveals that 77 percent of SMEs take between 1 to 3 months to pay creditors and 23 percent take over three months to pay suppliers.

Table 26: Supplier Selection, Cash Purchases and Period to pay Suppliers

Response	Frequency	Percentage
Supplier Selection		
Proximity of suppliers to business	23	15
Cost of supplies	96	62
Reliability of supplier	35	23
Cash Purchases		
Yes	18	12
No	136	88
Period to Pay Suppliers	69	45
One month	49	32
Three month	35	23
Over three month		

Source: Field Data, Akuffo Addo (2020)

Chapter Summary

This chapter has focused on the presentation and the discussion of the results of the study using descriptive statistics. The chapter has indicated some of the methods used by SMEs for keeping records. Also, some of the strategies SMEs use in the organisation of accounts receivables have been discussed as well as presentation on the inventory management system of SMEs with respect working capital management. Additionally, credit management mechanisms being used by SMEs in their various operations were indicated. The results were presents using graphs and tables.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Introduction

This chapter is generally about the summary of findings and conclusions of the study. Thus, the chapter presents the summary, conclusions and recommendations of the research. The summary highlights the salient findings per the specific objectives. Conclusions and recommendations were drawn based on the summary of the findings. The chapter also presents suggestions for further research.

Summary

According to the study, few SMEs are registered as companies and partnerships. However, the significant majority of SMEs are registered as sole proprietorships and enterprises. The study also establishes that SMEs businesses ranges restaurants and bars; traders in building materials and groceries; pharmacies and chemical sellers; boutique shops; mechanics and other artisanal businesses. The study revealed that very few SMEs survives beyond 15 years. Business owners change businesses or discard to pursue other interest. The study also revealed that SMEs significant majority keep some form of financial records especially cash receipts and very few of them prepare financial statements. The study further indicates that majority of the SMEs staffs responsible for financial management and reporting does not have financial management and reporting training. The study further revealed that even though a little over half of SMEs staffs responsible for financial management and reporting are computer literates, a significant majority of them do not use computers in financial transactions.

Moreover, the study all SMEs operates bank accounts but a significant majority of them do not operate bank accounts which are separate from their owners'. It immerged from the study that the most important criteria that SMEs operators use in selecting the banks to deal with is the reputation of the bank. Other criteria they use, in order of important are access to loan facilities, interest on savings and deposits. Thus, SMEs mostly bank cash receipts daily and weekly when cash is received.

In addition, the study showed that a significant majority of SMEs do not reconcile their bank statement balances to their cash book balances and the few of them who prepare such reconciliations mostly do it on a monthly basis. Furthermore, a little over half of them do not prepare bank cash budget and out of those who prepare cash budgets less than half spend according to the budgets always. Also, majority of them do not review their budget within the year. It was disclosed that a significant majority of SMEs hold cash for transaction motive.

Additionally, the preferred strategies SMEs use to deal with cash shortage through borrowing from family and friends, their bankers and non-banking financial service providers. However, it is worth mentioning that some of them even though a few wait till the business generate enough cash through sales to meet cash shortages. On cash surpluses, a little over half of SMEs invest in their businesses with the cash surpluses whiles the remaining based on the findings put cash surpluses in deposit accounts with banks and savings and loans institutions, others invest in government treasury bills.

The study indicates that all SMEs trade on credit and the volume of credit trade for a significant majority of them are below 20 percent. Most of them too do not have an established credit policy. The few ones who operate an established credit policy mostly follow the policy in extending credit to their customers. The bases on which SMEs extend credit to clients, in order of important, are clients' ability to pay when due; previous transaction records and their relationship with clients. Further, the study revealed that only 20 percent or less of all credit sales go bad. Overwhelming number of them do not prepare receivables ageing schedule according to the study and majority of them also grant credit to a period of 6 month or less. The preferred strategy SMEs use in collection of debt is follow up calls, followed by threat of court action and then court action. The study indicates that significant majority of SMEs do not follow any established inventory management practices with few them however use the rule of thumb and always better control inventory management practice. Some mostly keep their inventory at their business premises.

Based on the fourth objective, it was revealed that SMEs determine their inventory levels mostly by previous experience and the availability of funds to buy inventory. The study also showed that the owners and/or managers of SMEs authorize and approve purchases. The study further disclosed that majority of SMEs deal with inventory shortages by following their normal procurement procedures while a significant number refer customers to competitors when there are shortages. The study also indicated that SMEs do a stock count at least ones in every year, however majority of them only take stock when the managers or owners deem it necessary.

Finally, the study revealed that significant majority of SMEs purchase on credit. The most important criteria used by SMEs to select suppliers are the cost of supplies followed by the reliability of the suppliers and then the proximity of the supplier to the SMEs. The study further revealed that SMEs are mostly given payment period of 3 months or less.

Conclusions

Based on the findings of the study, the following conclusions are drawn. The personnel responsible for the management of working capital in SMEs lack capacity in terms of financial management and reporting as a result, financial records are not kept in its proper form. Moreover, SMEs do not follow a formalize working capital policy (cash management, inventory management, receivable management and payables management) and therefore are not able to analyze properly their effectiveness and efficiency in managing working capital.

Finally, Computer illiteracy of employee accountants, insufficient funds to employ professional accountants and upgrading the skills of non-professional accountants were some of the challenges that impeded the smooth utilization of working capital by the entrepreneurs.

Recommendations

The recommendations of the study were premised on the summary of and conclusions from the results and discussion. Based on the summaries of the analyses and conclusions, SMEs operators are urged to:

Establish organizations and groups like civil society organizations, regional, district, community and interest groups to jointly organize and sponsor training programmes for their accounting personnel. In organizing such programmes, each operator in an organization or group should be levied some amount of money that will cater for logistics, payment of resource persons, ICT training and other training needs and materials. This cost-sharing venture can offset the financial burden of an SME operator to singlehandedly train an accountant. Additionally, SMEs operators can organize in house financial training programmes to personally train or invite specialized resource persons to update the accounting practices of their personnel.

Identify their investment priorities particularly those that are crucial in sustaining their businesses in the long run. They should sacrifice to channel a chunk of their funds to finance and achieve these priorities that will enable them to generate extra cash or profits to plough back into other sectors of their industries. When this strategy has been achieved, they can generate sufficient funds to augment their cash target, buy treasury securities and finance other relevant investments that are instrumental to the success of their businesses.

Prepare budgets each time they intend to embark on major expenses. This will forestall unnecessary, unwanted, overestimated and underestimated expenses.

Formulate a credible credit policy for their enterprises. In crafting such a policy criteria should be set as to the conditions and terms for credit granting. The policy should also take cognizance of the maximum number of days creditors can defray their debts. Where necessary, grace periods can be added to these numbers of days. This will spare operators the head ache of undertaking formal credit investigations about their customers and from chasing or policing them if they became bankrupt. When creditors are unable to service their debts, legal action can be taken against them.

SMEs operators should create a re-order level policy for their businesses that will create an enabling environment for them to request for the supply of moderate and high quality stocks. An SME of such a policy paves the way for businesses to identify the best sellers of their wanted stocks in the market at peculiar seasons. Another, spillover effect of such a policy shall be the eschewing of price fluctuations and pirated goods.

Suggestions for Future Research

The study only examined management of working capital management practices among the SMSEs in the Agona West Municipality. However, management of working capital in the SMEs operations is also affected by other variables therefore other studies must consider those variables.

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Appendix A.

Questionnaire for Respondents

Dear Sir/Madam,

The following questionnaire is part of a survey being conducted in partial fulfillment of a Master of Business Administration (MBA) degree from the University of Cape Coast on the topic working capital management practices of Small and Medium Scale Enterprises in the Agona West Municipal Assembly of the Central Region in Ghana. Information you give will be treated as confidential and would solely be used for academic purposes. Your participation in this study is highly appreciated.

(Please tick/underline the possible answers provided as you deem appropriate; where you should tick the answer 'other' or have a different answer to the answers provided please explain briefly your answer)

Demographics of Respondents

1. What is your gender?
   Male
   Female

2. How old are you?
   20-29 years
   30-39 years
   40-49 years
   Above 50years
3. What is your highest level of education?
   Tertiary (university)
   Tertiary (other)
   Secondary
   Basic
   Technical & others

SME Features

4. What is the business from of your business?
   Enterprise
   Sole proprietorship
   Partnership
   Company
5. What type of business are u engaged in?

6. How many years have u been in operation?
   0-5years
   6-15years
   Above 15years
7. Have your business been registered?
8. Which institution did your business register with?

Working Capital Management

9. Does your business keep financial records?
   Yes
   No
10. What form of financial records does your business keep?
    Financial statements
    Cash payment and receipts
    Other
11. Have the officers responsible for financial management and reporting undergone any taining or workshops in financial management and reporting?
    Yes
    No
12. Do you know how to use a computer?
    Yes
    No
13. Do you use computers in recording financial transactions?
    Yes
    No

Cash Management Practices

14. Does your business have a bank account?
    Yes
    No
15. Is the bank account of your business separate from the owner's bank account?
    Yes
    No
16. What is the most important criteria do you use in selecting the Bank to deal with?
    Easy access to loans
    High interest on savings
    Proximity to the bank
    Bank reputation

17. How often do you bank (deposit) cash receipts?
    Daily
    Weekly
    Fortnightly
    Monthly
    As many times as needed
18. Do you reconcile your bank account balances with your cash book balances?
    Yes
    No
19. How often do you reconcile your cash book balances and bank account balances?
    Weekly
    Monthly
    As and when
    Yearly
20. Do you prepare cash budget?
    Yes
    No
21. Do you spend according to the cash budgets?
    Always
    Sometimes
    Not at all
22. Do you review your budgets during the year?
    Yes
    No
23. How often do you review your budget?
    4times
    2times
    Ones
    Never
24. Why do you hold cash in your bank accounts?
    Transaction
    Speculative
    Investment
25. Do you experience cash shortages?
    Yes
    No
26. How do you deal with cash shortages?
    Borrowing from bankers
    Borrowings from friends and family
    Financial services providers
    Wait till the business generates cash through sales

27. How do you deal with cash surpluses?
    Invest in treasury bills
    Deposit in bank accounts
    Invest in the business

Receivable Management Practices

28. Do you sell on credit?
    Yes
    No
29. What percentage of your total sales are credit sales?
    1 to 20%
    21 to 40%
    41 to 60%
    Above 60%
30. Do you have an established credit policy?
    Yes
    No
31. How often do you follow your credit policy in extending credit to customers?
    Always
    Sometimes
    Never
32. What is the most important basis you use in extending credit to customers?
    Customers' ability to pay
    Relationship with customer
    Previous transactions with customer
    Other
33. Do some of your receivables go bad?
    Yes
    No
34. Do you prepare receivable aging schedule?
    Yes
    No
35. What is the average credit period you grant to your customers?
    One month
    Three month
    Six month
    One year

36. What is your most important debt collection strategy?
    Follow up calls
    Threat of court action
    Debt collection agency
    Court action

Inventory Management Practices

37. Do you follow any inventory management practice?
    No practice
    Rule of thump
    Economic order quantity
    Always better control
    Just in time
    Computerized inventory management
38. Where do you keep your inventory?
    Business premises
    Own warehouse
    Public warehouse
39. What is the most important determinant of the levels of inventory your business keep?
    Rule of thump
    Previous experience
    Seasonal changes
    Availability of funds to buy inventory
    Other
40. Do you review your inventory levels?
    Yes
    No
41. How do you deal with inventory shortages?
    Panic purchases
    Customer referrals
    Follow normal procurement practices
42. Do you take stock?
    Yes
    No
43. What method of stock taking does your business use?
    Periodic
    Continuous
    As and when necessary

Payables Management Practices

44. How do you select your suppliers?
    Proximity of suppliers to your business
    Cost of supplies
    Reliability of suppliers

45. Do you do cash purchases?
    Yes
    No
46. What is the average period within which you pay your suppliers?
    One month
    Three month
    Over three month