

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI**  
**COLLEGE OF HUMANITIES AND SOCIAL SCIENCES**  
**SCHOOL OF BUSINESS**

TOPIC:

**EFFECT OF WORKING CAPITAL MANAGEMENT PRACTICES ON FINANCIAL  
PERFORMANCE AND COMPETITIVENES OF SMALL AND MEDIUM-SIZED  
ENTERPRISES IN THE KUMASI METROPOLIS.**

BY

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A Thesis Submitted to the Department of Accounting and Finance of the Kwame Nkrumah  
University of Science and Technology School of Business, in partial fulfilment of the  
requirements for the award of the degree of

**MASTER OF BUSINESS ADMINISTRATION**

**(ACCOUNTING OPTION)**

**JULY, 2020.**

## DECLARATION

I hereby declare that this submission is my own research work towards the Master of Business Administration and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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## DEDICATION

I dedicate this work to my father, Mr. John Timothy Adabie for his financial support throughout my education all these years.

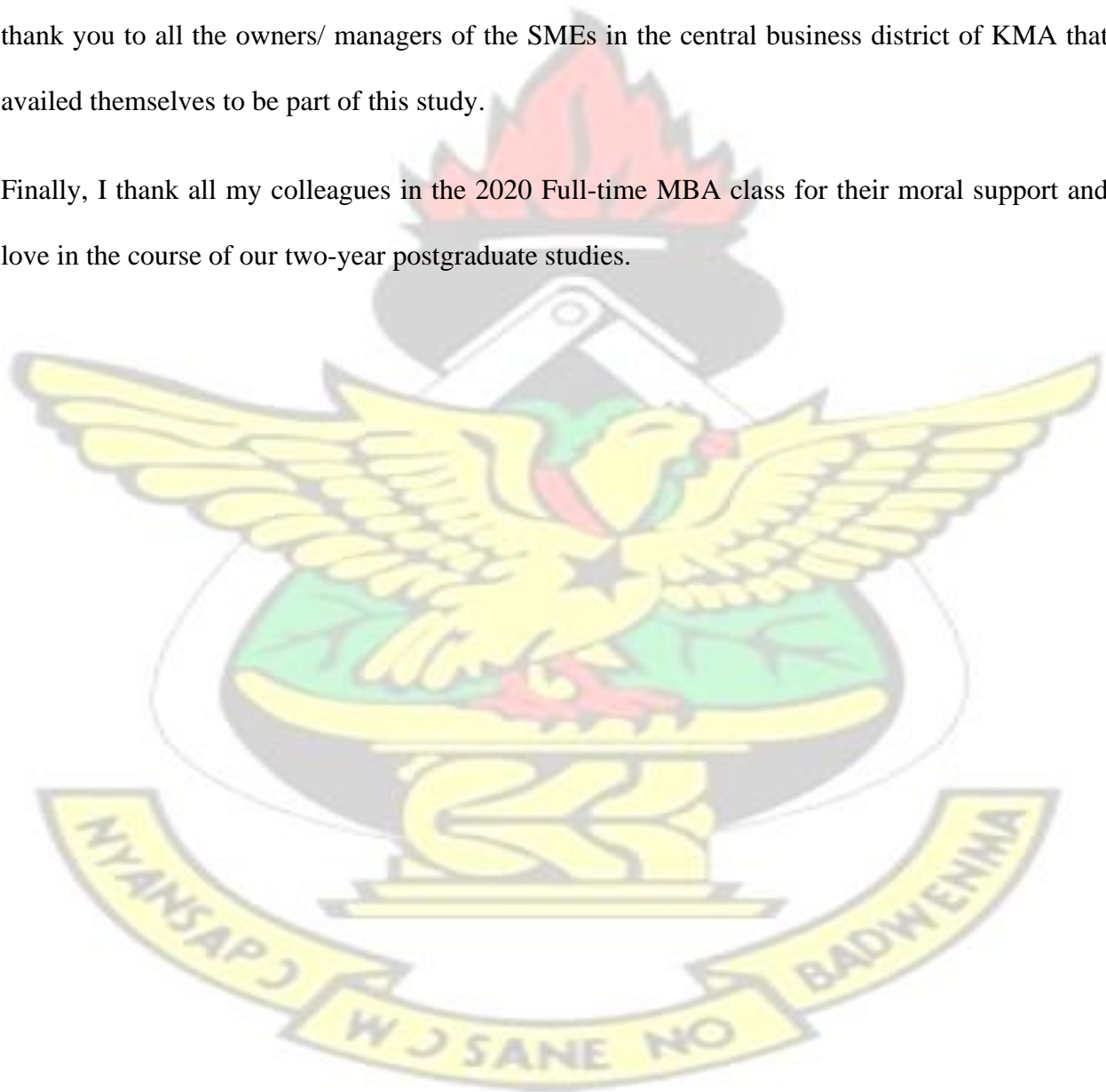
# KNUST



## ACKNOWLEDGEMENTS

My profound gratitude goes to the Almighty God for His protection and guidance throughout my MBA journey and for the successful completion of this research work. My sincerest thanks go to my supervisor, Prof. K. O. Appiah who guided me throughout this study. I am grateful to my parents, Mr. And Mrs. Adabie for supporting me financially throughout this research. I say a big thank you to all the owners/ managers of the SMEs in the central business district of KMA that availed themselves to be part of this study.

Finally, I thank all my colleagues in the 2020 Full-time MBA class for their moral support and love in the course of our two-year postgraduate studies.



## **ABSTRACT**

The study identifies the effect of three major constructs of working capital management (cash, receivables and inventory management practices) on the financial performance and competitiveness of small and medium-sized enterprises (SME) in the Central Business District of the Kumasi Metropolis. The study uses data gathered from hundred (100) SMEs in the Central Business District via the administration of structured questionnaires. The Structural Equation Modeling (SEM) is employed in the testing of the four hypotheses of the study. Results of the data analysis indicates that a high conduct of cash, receivables and inventory management practices result in a better SME financial performance and also a strong positive relationship exists between financial performance and competitiveness. The study is aimed at drawing the attention of owners/managers and other stakeholders of SMEs on the need to concentrate on an efficient cash, receivables and inventory management practices in order to improve on their financial performance and competitiveness in the business environment. When SME financial performance and competitiveness are improved across sectors, the vital issue of SME sustainability will also be improved. From the outcome of the study, it is recommended that the relevant state agencies in-charge of small businesses organize educational programmes to train owners and managers of SMEs on the rudiments of basic accounting record and book-keeping. SME owners and managers who lack knowledge and expertise in basic accounting can equally outsource for the services of a professional to inculcate and maintain efficient working capital management practices in their business.

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of Study

Small and medium-sized enterprise (SME) is a viable business sector that plays a major role in aiding a country's economic development as well as contributing to its Gross Domestic Product (GDP) (Burgstaller & Wagner, 2015). The economic activities of SMEs are many and they lend support to both developing and developed countries' economic development (Kumar & Rao, 2015). The role of SMEs in most developing economies is very key as the sector serves as a conduit for the creation of a lot of job prospects as compared to larger businesses at a lower capital cost (Kent Baker *et al.*, 2019).

The critical role of SMEs in economic development globally cannot be understated. According to the Organization for Economic Co-operation and Development (OECD, 2017), 99% of all organizations worldwide were SMEs business concerns and provided 70% of the jobs, while accounting for 45% of the jobs and 33% of the GDP on average in developing countries.

According to Prempeh (2015), most African economies are proliferated with SMEs and they are located in both urban and rural areas, ensuring an unbiased distribution of income in a country's population. SMEs contribution to private employment and the overall economic arenas of a country like South Africa are about 84% and 46% respectively.

In a developing economy like Ghana, the percentage contributions of SMEs to employment and viable business ventures are 71 percent and 92 percent respectively (Abor and Quartey, 2010). The sector also contributes about 70% to Ghana's Gross Domestic Product (GDP). SMEs cut across numerous sectors such as agriculture, agro-industrial, agro-processing,

manufacturing, fabrication and repairs as well as services such as financing, transportation, tourism, energy and catering.

According to Abor and Quartey (2010), capital assets, use of skilled labour, turnover level, legal status and number of permanent and casual workers are some of the elements that define SMEs. Due to the highly competitive nature of the environment in which SMEs operate, the vital roles they play and their enormous contributions to a country's economy is becoming visible to governments. However, it has been worrying that despite the incentives, policies, programmes and support instituted with the motive of making SMEs attractive, most of them seem to be underperforming in Ghana.

Notwithstanding the salient role SMEs play in the development and growth of national economies, they are faced by numerous challenges, especially in developing countries (Asare *et al.*, 2015). There have been suggestions from many stakeholders of the sector as to why this is so and a varied number of reasons have been given over the years. Some of these challenges can be attributed to the use of obsolete equipment, not making good use of improved technologies, limited skills and expertise, limited capacity to identify new business opportunities and ineffective marketing strategies (Urban and Naidoo, 2012).

Although some of the challenges faced by SMEs are effected by the operating environment (government policies, globalization effects, financial institutions, local government policies and attitude to work), other challenges are caused primarily by the SMEs themselves regarding how they go about their activities and operations. One major challenge to the issue of sustainability of SMEs is the lackadaisical approach to working capital management practices. Working capital management (WCM) is a vital component in the determination of the financial performance of a business entity (Niresh 2012).

WCM is a vital finance decision as it spurs a business to economic development. It is important to ensure the sustainability of a business in order to keep growing to compete effectively with others. According to (Nazir & Afza, 2009), the positive contribution of an efficient WCM towards the creation of a firm's value cannot be underestimated. Thus, there is the need for each construct of working capital to work efficiently to aid in firm's growth and sustainability (Tsagem *et al.*, 2014).

An efficient WCM revolves around the monitoring of current assets and existing liabilities in a way to minimize the potential debt and also to keep the firm from spending excessively on the assets. Also, an efficient WCM helps the firm to redistribute underutilized resources to higher-valued use which could boost the firm's performance. Just like larger firms, proper management of working capital is needed in SMEs, which is very critical to their solvency and liquidity (Sunday, 2011). It is in the light of this, that the study will focus on the effect of the three major constructs of working capital management - cash, receivables and inventory management practices on the financial performance and competitiveness of SMEs.

## **1.2 Problem Statement of the Study**

Ghanaian SMEs over the years have proven to be a platform for improving on the efficiency of domestic markets and the productive use of scarce resources. Hence, their contribution towards long-term economic growth. Compared to their large scale competitors, they have numerous advantages in that they adapt more easily to market conditions and are also able to endure harsh economic conditions due to how flexible they are (Asare *et al.*, 2015). The SME

sector in Ghana has the potential to contribute immensely towards the reduction of poverty among both rural and urban areas.

When it comes to the financial management of SMEs, factors of working capital management are very essential especially for emerging economies. WCM is a key parameter which impacts on various aspects of business, including a firm's profitability and liquidity (Soukhakian & Khodakarami, 2019). It is even being contended by some scholars that weak working capital management performance can be seen as the primary cause of failure among small businesses (Abuzayed, 2012). The effective management of short term assets and liabilities should be inculcated into every SME establishment to boost its survival and make it sustainable. There has been a limited number of empirical studies conducted to examine the relationships between cash, inventory, receivables and payables management and SME performance (Baños-Caballero *et al.*, 2014). This study is designed to test four hypotheses in examining the relationships between the three major constructs of working capital management (namely cash, receivables and inventory management) and financial performance and competitiveness in SMEs. By so doing, this study will contribute to further empirical studies from the perspective of a developing economy like Ghana.

The contributions of small businesses to development are generally acknowledged but the failure rate of small businesses is high in Ghana. SME owners face many obstacles that limit their long term survival and development. Research on small business development has shown that the rate of failure in developing countries is higher than in developed countries.

This study seeks to look at the attitude of owners and managers of SMEs in the implementation of the three major constructs of working capital management and how they are impacting on their businesses, performance and competitive-wise currently.

Through this study, owners and managers of SMEs will come to term with the fact that, inculcating an effective cash, receivables and inventory management practices into the financial management of their business will go a long way in boosting their financial performance and competitiveness. When the financial performance of an SME is attractive, chances of its survival for many years are assured, thereby solving the issue of SME sustainability in the country.

### **1.3 Research Objectives of the Study**

The overall objective of this research is to examine the effect of working capital management practices on financial performance and overall business competitiveness in small and medium-sized enterprises in the central business district (CBD) of the Kumasi Metropolis.

#### **Specific Objectives:**

In order to achieve the overall objective of the research, the study attempts to look at the following:

1. To identify the effect cash management practices have on the financial performance of SMEs in the CBD of the Kumasi Metropolis.
2. To identify the effect receivables management practices have on the financial performance of SMEs in the CBD of the Kumasi Metropolis.
3. To identify the effect inventory management practices have on the financial performance of SMEs in the CBD of the Kumasi Metropolis.
4. To investigate the relationship that exists between financial performance and competitiveness of SMEs in the CBD of the Kumasi Metropolis.

#### **1.4 Research Questions of the Study**

1. Does a high conduct of cash management practices affect the financial performance of small and medium-sized enterprises in the CBD of the Kumasi metropolis?
2. Does a high conduct of receivables management practices affect the financial performance of small and medium-sized enterprises in the CBD of the Kumasi metropolis?
3. Does a high conduct of inventory management practices affect the financial performance of small and medium-sized enterprises in the CBD of the Kumasi metropolis?
4. Does a relationship exist between the financial performance and competitiveness of SMEs?

#### **1.5 Significance of the Study**

In Africa, SMEs help in the creation of a huge number of jobs, help in starting up big businesses. From an economic point of view, SMEs are both suppliers and consumers (Abor and Quartey, 2010). Due to the significant role SMEs play, serving as an engine of economic growth in the world, there is a need for a major attention to be directed to the sector. In developing economies like Ghana, the government is unable to employ the teeming number of graduates, school leavers and youth hence the need to sustain the next best employment alternative. SMEs serves as a conduit for employing majority of Ghanaian populace in the informal sector. Most SMEs die out due to poor financial performance and the inability of most enterprises to compete and thrive in their business environment. The attention of most SME owners and managers is mostly on sales, thereby keeping a blind eye on essential

financial management practices that can change the fortunes and affect survival of the business.

With a lot of SMEs springing up and dying out concurrently within a year or few years of operation show the need for the conversation to switch to effective business sustainability measures. The major sustainability measures the study will look at is the efficient cash, receivables and inventory management practices in SMEs.

There is also the need for regulators, SME owners and managers, aspiring small business entrepreneurs to understand how crucial financial performance is in enhancing SME competitiveness in the business environment.

## **1.6 Overview of Methodology**

Primary data was used for the research study due to the unavailability of an official database for financial management practices or performance indicators of Ghanaian SMEs.

For collecting data, survey method was used, where structured questionnaires were distributed to owners and managers of SMEs. SMEs of all legal forms in the central business district of the Kumasi Metropolis were engaged as the target population. The sample was drawn from the population using non-probability sampling method (convenience sampling). Nguyen's (2001) questionnaire and scales were used, with a 9-point Likert scale measurement system and 8 questions for each financial management practice (cash, receivables and inventory management)

The survey questionnaire of Duesing (2009) was used with five indicators of profit to sales ratio, return on investments, overall financial performance, sales growth and market share.

The respondents ranked using a 7-point Likert scale with respect to similar companies to collect primary data. Cronbach's alpha was utilized in testing the reliability scores of the survey scale.

### **1.7 Scope and Delimitation of the Study**

Conceptually, the study was restricted to examining the effect of cash, receivables and inventory management practices on the financial performance and business competitiveness of SMEs in the central business district of the Kumasi Metropolitan area. The central business district comprises of Adum and Kejetia. This geographic area is selected because it represents a large number of SMEs in the city of Kumasi. This study focused on all SME sectors in that area - manufacturing, trading, construction and service sectors. SMEs of all legal form (sole proprietorship, limited liability and joint stock) was considered. One hundred (100) SMEs in the area was selected in a convenience sampling approach for the study.

However, there are many SMEs in the Kumasi Metropolis and the reason for focusing on only the central business district was to avoid a wider geographical area, which required more time and resources that was beyond the scope of this study.

### **1.8 Organization of the Study**

This research study has been organized to comprise of the following five chapters.

Chapter one, which is the introduction. This begins with the research background and discusses statement of the problem, basic research questions, objectives, significance of the study. Finally, the overview of methodology, scope and delimitation and organization of the study are presented.

Chapter two, which is the literature review. In this chapter are the definitions of SMEs, the concept of cash, receivables and inventory management practices, empirical studies, conceptual framework and finally hypotheses of the study.

Chapter three, which is the research methodology: This section discusses the research design and approach of the study, data source and method of data collection. Sampling method and sample size are also presented in this section, and also the measurement of variables included in the research is mentioned. Specification of the model is determined.

Finally, methods for data analysis are discussed, validity and reliability of the variables are measured, and then ethical considerations are also explained in the section.

Chapter four presents the data analysis and interpretation. This section discusses the respondents' profile and the tests of the reliability of the individual constructs with Cronbach's Alpha. Data analysis is conducted through descriptive statistics and regression analysis. Hypotheses testing is performed using structural equation modelling.

Chapter five, which is the conclusion and recommendations. In this section the main findings of the research are summarized and conclusions on major findings are presented. Recommendations are given based on the research findings and the limitation of the study is stated.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter reviews literature on the subject matter of the study. It starts with the theoretical review of working capital management and financial performance, an overview of the concepts of SMEs and the three major constructs of working capital management practice in SMEs; the study looks at (cash, receivables and inventory management practices). Later sections of the chapter looks at the empirical review of the study, the conceptual framework and finally the hypotheses of the study.

#### **2.2 Theoretical Review**

##### **2.2.1 Operating Cycle Theory**

Richards and Laughlin (1980) developed the operating cycle theory and it is concerned with procedures on prudent working capital management in business entities. The theory's basis is on the fundamental preposition that static ratios are insufficient and are usually unclear in the assessment of the liquidity position of a business entity. The amount of time spent by the business concern for the acquisition of inventory, sale of inventory and cash receipts from customers in exchange are basically what the operating cycle represents (Hill, 2013). According to Bhattacharya (2014), the length of an entity's operating cycle relies on the payment terms given to customers by the business as well as those given by suppliers to the business entity. If an entity has sufficient amount of time on its hand to pay its suppliers for inventory, it can make its operating cycle short by causing a delay in cash disbursement. The operating cycle is prolonged on the other hand if the entity's customers are given more time to pay for goods received. This is mainly because the firm

would have to wait a long while to obtain its cash. According to Ross *et al.* (2008), when the operating cycle is short which shows that the cash of the entity is held up for a shorter period of time, it is seen as more ideal from a cash flow viewpoint.

Proponents of the theory contend that while receivables and inventory turnover indicators of an operating cycle concept places users to the vital aspect of financial avenues, the analysis is incomplete on the fact that it does not take into consideration all pertinent financial avenues. When payables turnover ratio is added to the analysis, a more detailed insight is thrown unto the study of the working capital management and liquidity (Nobanee, 2009).

“The theory was helpful in the assessment of cash management, inventory management, accounts receivables management and accounts payables management and their individual and collective effect on performance of SMEs” (Wanjira & Njagiru, 2018).

### **2.2.2 Transaction Cost Economics Theory**

Williamson (1989) proposed the theory of transaction cost economics which basically referenced transaction as the fundamental unit of assessment. The theory propounds that the comprehension of transaction cost control is paramount in analyzing business units. For a worthwhile working capital framework to be built, the external transaction between a business entity and both its customers and suppliers should be addressed. There should be in place established methods and systems in the entity to ensure an optimal level of inventory so as to reduce the costs involved, which includes ordering and holding costs (Tadelis & Williamson, 2012). Ordering costs include expenses incurred in preparing purchase forms, receiving goods, examining and registering the goods accepted and all other associated expenses. The holding costs include the maintenance cost of the inventory in the store which encompasses inventory storage costs and other opportunity

costs as additional costs. Proponents of the theory contend that the reduction of working capital related costs of the firm via the development of strategies is a sure way of building their competitive advantage. Systems need to be applied to aid in the maintenance of ordering, holding and opportunity costs of stock at lowest possible levels (Emery & Marques, 2011).

“The theory was very useful in the assessment of working capital management issues in assessing whether the organization had well laid strategies to ensure the associated costs are controlled” (Wanjira & Njagiru, 2018).

### **2.2.3 Trade-Off Theory of Liquidity**

Campbell and Kelly (1994) developed the trade-off theory of liquidity and it was based on the proposition that firms aim at an ideal liquidity level as they look out for a trade-off between the benefits and the downside of holding cash. When too much cash are tied to an entity, the result is the incurrence of low rates of return (Dudley, 2007). On the other hand, savings on transaction costs incurred in raising funds for the daily operations and obligations are some of the benefits associated with holding cash (Lipson & Mortal, 2009). As such, holding cash would be beneficial because business entities would be able to finance their investment prospects and operations through the use of liquid assets if there is inaccessibility or the nature of other sources of funding seem to be expensive.

“The theory principally helped in the assessment of cash management, accounts payables management and accounts receivables management as the firms strike a trade-off between the detriment and advantage of holding cash” (Wanjira & Njagiru, 2018).

## **2.3 Review and Concepts of Small and Medium-sized Enterprises (SMEs)**

### **2.3.1 Definition of SMEs**

The SME sector has been growing around the globe for a while now, there have been a lot of major attempts by several researchers in describing and defining what SMEs are made of. In defining the term SMEs, a lot of criteria come to play which includes annual revenue or receipts of the enterprise, values of the product, total and net worth of the business as well as the number of individuals employed among other criterion and varies from country to country (Donkor, 2015). However, there appear to be no fixed definition for SMEs as well as micro firms that is universally accepted. A lot of definitions and descriptions have been associated to SMEs by many nations and organizations around the world. In defining SMEs, some literatures consider the number of individuals employed in a business entity, the firm's total assets and turnover in arriving at that definition (Petera & Chand, 2015). According to Abor & Quartey (2010), the European Commission (EC) looked at the number of individuals a business entity employs to give a definition and description to an SME. The procedure applied by the EC is to group SMEs into categories – business units with 0 to 9 employees constitutes micro enterprises; the ones with 10 to 99 workers are small enterprises whilst establishments with 100 to 499 employees constitutes medium enterprises.

In North America, description of an SME in Canada is a business unit which employs less than 500 workers but a high performance SME on the other hand is described as the one with less than 50 workers. In the USA, the definition given to an SME is based on an employee limit of 100 people (Cela and Gaspari, 2015).

The definition of SMEs given by the World Bank is close to that of the UN, that is, organizations with an employee base not higher than 300 employees, do not go beyond \$15 million revenue threshold each year and an asset portfolio not exceeding \$15 million.

In Africa, narrower definitions are given to SME taking into consideration the number of people employed in an establishment and revenue generated, which according to Olayinka *et al.* (2016), seem to be understandable looking at the low economy of most countries on the continent, the limited number of enterprises and lower revenue base compared to other small enterprises in more developed economies of the world.

Most of the definitions given to SMEs in Ghana are also determined by the number of people employed by the business entity. According to Abor & Quartey (2010) there are three categorization when it comes to classifying the number of individuals a firm employs over a period and these categories are: a business unit having less than six workers is micro, entities employing from six to nine people are classified as very small and between ten to twenty-nine employees are tagged as small enterprises.

The same criteria of defining SMEs according to the number of employees a firm engages for a period of time is also used by the Ghana Statistical Service (GSS). The GSS defines an SME as a business establishment that engages between one to five employees which is micro, six to thirty employees which is small, 31 to 100 employees as medium enterprise and more than 100 employees as a large enterprise (GSS, 2016). Conversely, the National Board for Small Scale Industries (NBSSI) defines and describes an SME based on the fixed assets possessed by the enterprise and the number of people working there. The NBSSI defines an SME as any business establishment with employees not exceeding nine people and having plant and machinery (excluding land, buildings and vehicles) also not going beyond a 10 million Ghana cedi threshold.

The application of the NBSSI definition is quite problematic in real situations due to the challenge of valuing the fixed assets of a business in a Ghanaian environment. The reason for this is also typically attributable to the continuous fluctuations in the cedi rate as against the dollar, euro and other trading foreign currencies and also the disparity in the business structures between local SMEs and foreign ones.

The different definitions and descriptions of SMEs given by different nations and organizations appear to be main cause of the definitional problem of SMEs.

### **2.3.2 The Development of SMEs in Ghana**

In Africa, 90 percent of all enterprises are made up of SMEs and are located in both rural and urban parts on the continent. SMEs' contribution in South Africa is about 84 percent of private sector employment (Li & Rama, 2015) and the contribution of the sector to the macroeconomic growth of Kenya's economy can be seen through the provision of employment, training of entrepreneurs, generation of income and improvement in the livelihood of the low income households in the country (Abor & Quartey, 2010).

SMEs in Africa and Ghana in particular contribute not only to the development of national GDP but also help in reducing unemployment (Abor & Quartey, 2010). SMEs also serve as a conduit for generating revenue to aid in improving government finances. According to Boachie-Mensah and Marfo-Yiadom (2005), a 60% failure rate of SMEs are recorded within the first five years of operation regardless of their importance to the various national economies.

The concept of promoting SMEs in Ghana, has been in existence since 1970 though much effort was not channeled into that during the period (Abor & Biekpe, 2006). The Office of Business

Promotion and currently the Ghana Enterprise Development Commission (GEDC) were established to offer assistance to SMEs advancement. The main purpose of GEDC was to lend a helping hand to entrepreneurs in Ghana to enter into business avenues which were mainly run by foreigners. Packages for the firming up small scale industry both technically and financially were also part (Kayanula & Quartey, 2000). In 1983, the Economic Recovery Programme (ERP) was also started which improved on the support given to SMEs by these institutions. The National Board for Small Scale Industries (NBSSI) also begun operating within the Ministry of Industry, Science and Technology to help in addressing the requirements of small businesses. An Entrepreneurial Development Programme was also instituted within the NBSSI with the intent of offering people training support which would equip them with entrepreneurial capabilities for self-employment (Abor & Biekpe, 2006). The industrial sector in 1987 saw the coming into operation of the Ghana Appropriate Technology Industrial Service (GRATIS). GRATIS had a duty to oversee the operations of Intermediate Technology Transfer Units (ITTUs) in Ghana. The purpose of establishing GRATIS was to see to the elevation of scale industrial issues by transferring the requisite modern technologies to the grass root level, that is areas of small scale and informal sectors of the economy.

The SME sector's development and growth have evolved over the years in Ghana and a lot of Ghanaian businessmen and entrepreneurs are setting up new enterprises in the sector year in and out. The Government of Ghana has also assisted in numerous ways by paying close attention to the sector's development and growth over the years (Peprah *et al.*, 2016).

### 2.3.3 Contributions of SMEs in Ghana

In Ghana and other developing economies where the majority of the populace are employed in the informal sector, SMEs serve as a driving force in economic development (Boeh-Ocansey *et al.*, 2009). The active role being played by SMEs in creating employment, reducing poverty, developing industries, developing rural areas and supporting the growth of both local and exports market have been quite tremendous (Asare *et al.*, 2015).

The World Bank estimates emphasized, that about 70% of Ghana's GDP in 2007 was contributed by SMEs and constituted about 92% of Ghanaian businesses (World Bank Development Indicators, 2007).

In Ghanaian economy, the SME sector is seen as the most important sector as it serves as the prime employer of majority of people. The sector is very critical for policy makers, development experts and other leaders to continually plan, introduce and provide practical policies to develop the sector. It is observed that, issues of unemployment and poverty in the country can be solved by consciously improving the SME sector in Ghana (Amoah & Amoah, 2018). The technical innovation needed to move the economy is being advanced by SMEs. SMEs possess the expertise, ideas and risk-taking capabilities to help in exploring potential prospects in the environment that eventually bring about job creation and employment for many people. A large number of the working populace are being employed by the sector in both rural and urban areas in Ghana and also assists in channeling resources that may otherwise be wasted due to their undesirability into efficient use. 92 percent of all business establishments in Ghana are SMEs (GSS, 2016). The numerous activities and potential embedded in the sector makes it a very essential sector in the Ghanaian economy in fiscal policy making and growth. These help in strengthening and making

good use of unexploited talents to curb the growing challenge of lack of jobs and provision of lasting solution to the unemployment crisis in the country.

“SMEs also play an important role in promoting economic growth and assist in the improvement of social development in a frequently changing economic environment. They are also flexible and have significant ability to adjust, stimulated by low magnitudes and rapid decision making” (Amoah & Amoah, 2018).

#### **2.3.4 Challenges of SMEs in Ghana**

Most Ghanaian SMEs are overwhelmed with a lot of challenges just like any other small business in developing economies around the world. Some of the challenges confronting Ghanaian SMEs may include restrictions to credit facilities, lack of managerial know how and expertise, regulatory and legal issues, lack of easy access to international markets, lack of modern equipment and technical expertise not forgetting the improper administrative and records keeping procedures (Steel & Webster, 1991). These challenges together with others are being faced by Ghanaian SMEs on the daily. These challenges hamper the growth and progress of the sector, preventing it from fully playing its central role in the development of the economy especially in the aspects of creating job prospects and employment.

Constraints in assessing credit facilities is a challenge faced by Ghanaian SMEs. The source of capital for most these SMEs are personal savings, family inheritance, funds extended by friends and financial institutions. The amount of money that could be granted to the SMEs are mostly limited which do not match up to what is needed to set up the enterprise, its growth and expansion (Amoah & Amoah, 2018). The documentation process coupled with the demand for collateral

securities, the ever increasing interest rates and short periods of repayment are examples of the constraints the SME operators go through in most instances before they can access credit from financial institutions in Ghana (Aryeetey *et al.*, 1994).

The second challenge Ghanaian SMEs face is the lack of managerial capabilities, low knowledge level and expertise to apply pertinent financial management practices by the SME owners (Kayanula & Quartey, 2000). Most Ghanaian SMEs are broad in nature and also possess low incomes and capital. These place a restriction on the ability of the enterprises to employ qualified and skilled employees possessing the requisite managerial expertise and capability to manage the business to ensure productivity and efficiency. The literacy and numeracy levels of most SME owners and managers are on the low side which pose the challenge of inculcating new and well-planned strategies into their business. These impact negatively on the investment direction and operations of the business entity (Aryeetey *et al.*, 1994).

Regulatory and legal issues are also major challenges confronting Ghanaian SMEs (Abor & Quartey, 2010). Just as other business concerns, SMEs are able to operate effectively in a well-designed and functioning regulatory and legal atmosphere. The registration of businesses for instance involve high cost coupled with bureaucratic processes which usually put SMEs at a disadvantage in setting-up, their operations, growth and expansion (Amoah & Amoah, 2018). SMEs ability to compete and enter into international markets is another challenge facing the sector in Ghana. This is usually due to unit cost which are on the high side, products having low quality, lacking standardization, bad packaging and the incapability to undertake practical market research and development compared to other businesses in developed economies. Challenges of competition faced by SMEs are not limited to that of international markets but also the ones faced

with local level market limits which are caused by macroeconomic problems like higher input prices, poor infrastructure and high tax rates (Abor & Quartey, 2010).

Most of the Ghanaian SMEs are not quite up-to-date with modern technologies and techniques regardless of the invasion of modern ways of doing business in the world now. The world is now advancing with the invention of more innovative technologies such as modern tools, information system, machinery and equipment that are equipping business units to thrive excellently and enhance productivity. These modern innovations in the business space also help SMEs around the world achieve competitive advantage over competitors, something most SMEs in Ghana lack. The ability and need to inculcate modern ways of doing business is being overlooked in Ghana due to managerial incompetence, possibly low levels of income, and complacency of owners (Pillay, 2016).

## **2.4 Working Capital Management and SME Performance**

Working capital management (WCM) encompasses the management of the relationship that exists between the short-term assets and short-term liabilities of a business entity. WCM is aimed at ensuring that a business concern has the ability to continue with its operations and also meet maturing short-term debts and imminent operational expenses adequately.

Working capital is defined as a business entity's current assets less its current liabilities. Inventories, account receivables and cash in hand and at bank are what constitutes current assets while accounts payables, bank overdrafts and other payables make up current liabilities.

A net investment in short-term assets are what constitutes working capital. These assets which circulate in and out of the firm are essential for the daily operations and activities (Atrill, 2006).

A business entity's ability to meet its short term obligations in order to ensure continuance in its trade rely mainly on the entity's capability to make sufficient cash. The major cause of SME's failure can be hinged generally on the insufficient working capital decisions and improper accounting information.

Working capital constitute a considerably portion of a business entity's total assets (Baker, 1991). Although different sectors have varied levels of working capital, manufacturing and retailing businesses usually keep most of their total assets as current assets. Most SMEs on the other hand, have no non-current assets such as buildings and vehicles of their own and most of the business entity's current assets consist of accounts receivables, inventory, and bank and cash balances. Evidently, the long term growth and survival of SMEs are directly affected by WCM and this is due to the requirement of higher levels of working capital the entity needs in supporting the growth of sales or production (Khan & Jain, 2007).

There has been limited evidence of the correlation between WCM and performance on SMEs since the focus of existing literatures are primarily on bigger business establishments (Banos-Caballero *et al.*, 2014). However, research shows positive correlation between an efficient management of working capital and performance of SMEs (Banos-Caballero *et al.*, 2010; Paul & Boden, 2011).

In classifying the WCM of a business entity, two different strategies are considered: aggressive and conservative strategies (Garcia-Teruel & Martinez-Solano, 2007).

With an aggressive strategy of WCM, there is a cut in inventory and accounts receivables investments (Deloof, 2003). When the inventory turnover period is reduced, there is an improvement in the performance of an entity as a result of the numerous costs linked to the holding of inventory such as warehouse storage costs, utilities, spoilage, insurance, theft etc. When there

is a cut in accounts receivables investment, this may lead to an improvement in a firm's performance because there will be an increment in available cash flow to the entity. This can be useful in financing the daily operations and thereby eliminating the need of the entity for expensive external finance in the process (Autukaite & Molay, 2011). A delay in payments to suppliers due to indulgence in an aggressive WCM strategy can also result in an improvement of a business entity's performance.

The conservative strategy on the other hand can help in enhancing a business entity's performance through an increment in working capital investment. A conservative strategy ensures the stimulation of the business entity's sales as a result of increment in inventory and accounts receivables (Tauringana and Afrifa, 2013). Production interferences, risk reduction in the running out of inventory and reduction in the cost of supply and price fluctuations can be prevented by investing in inventories (Deloof, 2003). Likewise, if a firm invest hugely in account receivables, it can lead to improved performance because customers are allowed the time to pay. This also leads to a reduction in the information unevenness between customers and the business entity, serves as a strategy for product differentiation, strengthens a desirable supplier-customer relationship, aids in an effective price cut, causes a reduction in transaction costs and ensures acquisition of commodities of low demand by customers (Wilner, 2000).

#### **2.4.1 Cash Management in SMEs**

Cash does not just form a component of working capital but links everything finance in a business entity (McLaney, 2000). It serves as a link that connects short and long term financing decisions

and these decisions are made up of both working capital and fixed assets investments. Efficient management of cash is obviously a very vital role in any business entity regardless of its size.

According to Keynes (1973), a business entity holds cash for three main purposes which are; transaction, precautionary and speculative motives. Firms hold a certain quantity of cash to aid in making the necessary payments for goods or services they acquire. The ability of an entity to schedule its cash flow depending on their predictability, the weaker the transaction-motive for holding cash will be. The transaction motive for holding cash seem more applicable to SMEs.

The precautionary motive looks at how a firm need to prepare for unanticipated and unplanned expenses and unforeseen prospects of convenient purchases. Uncertainty lies in future cash flows and a business entity's ability to borrow additional funds at short notice. The precautionary motive of holding cash will be higher in firms operating in a highly risky sector than those that operate in a less risky sector.

A speculative motive of holding cash is one based on the assumption that rising interest rates could cause a decline in security prices and vice versa. When interest rates are expected to fall for instance, a firm will invest its idle cash in securities and this will be favourable to the firm because the prices of the acquired securities will rise due to the expected fall in interest rate.

A business entity also holds cash to take advantage of investment prospects, make good use of discounts for prompt payments and to improve its credit ratings. These speculative motives for holding cash usually do not apply to big firms and so this tends to apply especially to SMEs because they usually do not possess the requisite resources to engage in intricate financial decisions such as this.

According to Srinivasan (1999), the ability to cover cash budgeting, use well-organized collection to manage cash flows, proper disbursement, maintain an optimal cash level and invest surplus cash, sums up the aim of an ideal cash management strategy.

Cash flow availability in a business entity have an impact on WCM and the performance of the business entity. When cash flow is available, the end result will be an increment in the inventory investment, which results in the overall cash conversion cycle (CCC) of a business. A business will take advantage and subscribe to bulk purchasing when there is available cash flow. Bulk purchasing tends to reduce the cost incurred in procurement and also helps in saving costs which results in a reduction in the cost of sales of goods. This will eventually lead to the overall price of the product, resulting in a higher performance (Afrifa & Tingbani, 2018).

When a company purchases in bulk, it enjoys quantity discount from the supplier and tends to save money in terms of transportation since only one trip will be made instead of embarking on two or more. The firm would make savings on the fixed costs associated with ordering such as placing and processing orders. An inventory investment increment brings relief to a firm by preventing the possibility of stock-out situations (Tauringana & Afrifa, 2013). Instances of stock-out have a perilous consequence on a firm's performance because a business entity that finds itself in such situations may eventually lose its goodwill (Bhattacharya, 2008).

When there is available cash flow, the business entity is able to increase investments in accounts receivables. Generous credit is offered to customers which results in a higher performance when there is availability of cash flow in the business. The reason a business entity offers its customers trade credit is to give them the needed time to be able to authenticate the degree of the quality of goods purchased (Danielson & Scott, 2000).

There is also an increment in working capital investment when there is available cash flow and this is done through reduction in the accounts payables period. A business entity may take advantage of cash discounts from suppliers when it has enough cash flow by paying for goods supply quickly (Banos-Caballero *et al.*, 2010). The decision to request or accept a credit period results in an intrinsic cost to a business, which tends to diminish performance. SMEs' performance may be improved by a shorter CCC because there will be a reduction or elimination of the need to over-rely on external finance.

#### **2.4.2 Receivables Management in SMEs**

Firms selling on credit is an inevitable necessity in the world of business today and a business unit has to make credit sales to solidify its existence.

“Accounts receivable are customers who have not yet made payment for goods or services, which the firm has provided. The objective of receivables or debtors management is to minimize the time-lapse between completion of sales and receipt of payments” (Abimbola & Kolawole, 2017).

The accounts receivable period (ARP) given by the business entity have an effect on its performance. The sales of the entity increase automatically as the level of ARP increases. Also, high ARP improves on the performance of the firm since they serve as quality assurance which gives the customers a more unrelenting relationship in terms of quality. As observed by Akoto *et al.* (2013), there exists positive relationship between ARP and the performance of a business entity. Despite the benefits ARP has to offer to a business, instances where there is bad debt or failure to grant credit by the firm, high ARP may become detrimental to the firm's performance.

The effects from ARP slightly differs in SMEs when compared with big companies because an increase in size of the company leads to better performance in the ARP.

According to Joshi (2000), an investment in accounts receivable is primarily targeted at increasing profit through sales expansion to maintain old customers and attract new customers as well. Through the constant increase in sales and profit, the firm fashions out a bigger market niche and elevates its position among competitors. In the determination of the best credit extension policy, financial managers of business entities need to consider credit standards, credit terms and collection effort. These make up major controllable variables that can be used to adjust the level of accounts receivables.

The screening of applicants can be done by the entity using credit standards to help with the determination of customers who should be offered credit and how much. The firm is able to exercise a level of control over the quality of accounts accepted by setting credit standards. The time it takes a customer to settle debt and the possibility that a customer will default in payment of credit extended to them need to be looked at.

There are ways a firm can classify customers for the purpose of approving or refusing credit to them when setting credit standards (Van Horne, 2000). This eliminates the stress the business will go through in evaluating a customer's credit worthiness when they fall in the refused category. According to Van Horne (2000), when it comes to the extension of credit to those who qualify, there is the need to compare the expected cost of extending credit with the profit that is expected to be forfeited in the absence of credit.

There are various methods which can be employed by the business entity as a way of merging the efforts it has made in the collection of outstanding amounts. Some of these methods are through

the sending of notices or letters to customers or clients informing them of the past-due status of their accounts and the need to settle immediately, calling customers on phone to alert them or paying visits to customers to ensure payments are obtained. There can also be the engagement of the services of debt collection agencies (factors) and resorting to taking legal action against customers.

### **2.4.3 Inventory Management of SMEs**

Inventory is a vital asset which constitute a larger part of the total current assets possessed by a business entity. Inventory refers to goods which are to be procured, utilized or offered up for sale in an entity's normal business operations.

“Inventory management is a very essential corporate function as its significance to the success of operations in a firm cannot be understated. This is primarily due to the fact that, the amount of money invested in inventory is significant and also inventories do have a major effect on the daily operations of a business” (Wanjira & Njagiru, 2018). An inventory management system is seen to be efficient when it aims at meeting expected demand, making production requirements smooth, protecting against price hikes, making good use of discounts, uncoupling production components, protecting against stock outs, taking advantage of order cycles and also allowing continuous operations.

The efficient management of inventory is key and the application of replenishment rules for each item of inventory should not be taken for granted. The right inventory ought to be made available at the needed place and in right quantities and its acquisition made at a possible lowest price (Brigham & Ehrhardt, 2013). When demand in the market is higher than the stock available for

fast selling items, stock-outs usually occurs. This has the tendency of causing a loss in sales and customer loyalty as well. On the other hand, if a business entity has higher stock than needed, it results in high handling costs, storage costs and interests associated with short-term borrowings. According to Lynch (2005), the major goal of inventory management is to ensure minimization of total inventory cost and also high profits in operations. A balance has to exist between acquisition cost and holding cost of inventory as they affect the profitability of the firm immensely.

An inventory management system ensures that specifications are made on the order quantity and the re-order point with a profit making intent. An Economic Order Quantity (EOQ) should be ordered at once which has an impact on the ordering and holding costs and also an effect on the entity's profitability. There tend to be a lower annual ordering costs and high annual holding costs if few large orders are made. Frequent small orders on the other hand, causes an increment in ordering costs but a lower holding costs (Muchaendepi *et al.*, 2019). Hence for a firm to achieve profitability, increasing the order size and obtaining volume discounts and off-set by lowering holding costs are very necessary (Lynch, 2005).

The firm should not wait for stock to be exhausted before placing orders for additional inventory. The lead time for the replenishment should be taken into consideration when inventory level gets to the re-order point and requires an order. According to Morse (1981), "the daily inventory demand and inventories help in preventing stock-outs, which lead to loss of sales and interruptions in the production due to variation in lead times. Stock outs generally lead to extra processing costs on back orders and lost opportunity costs from sales."

Efficient inventory management positively affects the profit of the business entity and should therefore be inculcated into the business as a corporate culture and imparted into employees to make the entity successful (Laugero, 2002).

## 2.5 Competitiveness of SMEs

SMEs have the potential to promote growth domestically in novel and already existing sectors and to also ensure a more resilient economy in a competitive environment. “Universally, the role of SMEs to the growth of national economies is tremendous” (Peprah *et al.*, 2016).

Frimpong (2013), in making reference to the Department of Statistics in Malaysia, stated that developed economies such Taiwan, Korea and others had their economic growth being significantly made possible by SMEs activities. SMEs contributed to the Gross Domestic Product (GDP) by a percentage of about 53.3% in Japan, 60% in China, 50% in Korea and 57% in Germany, as compared to Malaysia’s 47.3%.

SMEs are progressively being identified as dynamic force behind economic growth and development in most African nations. SMEs are estimated to account for 91% of South Africa’s formalized businesses and 70% of Nigeria’s manufacturing sector, contributing to about 61% of employment and between about 52% and 57% to GDP respectively (Frimpong, 2013). Aside making essential contributions to the economy, SMEs can also serve as a boost for diversification in the economy through the development of new and less crowded economic sectors. SMEs that are innovation and technology inclined can also provide a unique platform to aid in breaking barriers and advance beyond domestic borders and penetrate into intra-regional and international markets (Frimpong, 2013). The jobs created by the SME sector in many African economies are about 50 percent of total jobs created on the continent and in a country such as Tanzania, estimates show that more than a one-third of the nation’s GDP is generated by SMEs (Peprah *et al.*, 2016).

The accelerated effect of SMEs on economic growth, income and employment in Ghana cannot be under-emphasized. According to Peprah *et al.* (2016), “SMEs in Ghana have also been noted

to provide about 85 percent of manufacturing employment, contribute about 70 percent to Ghana's GDP, and therefore have catalytic impacts on economic growth, income and employment". "International Trade Centre (ITC) (1999) on competitive advantages of SMEs posits among other advantages mentioned flexibility, innovation, lower costs, spatial benefits and the potential for decentralized supply opportunities and power congestion costs" (Peprah *et al.*, 2016). When the environment SMEs' operate is very conducive to a higher extent, their contribution to the economy are huge.

## **2.6 Empirical Review**

When it comes to a firm's viability, financial performance, sustainability and business competitiveness, the significance of efficiently managing working capital cannot be taken out. The viability of a business entity relies primarily on its ability to manage its cash, inventory, receivables and payables efficiently.

Burns & Walker (1991) conducted a study to identify the WCM practices in 184 firms. The firms were found to have an informal policy that are not reviewed by managers on the regular. Most small business entities prepare a cash budget weekly and monitor the efficiency of WCM by relying on current ratio.

Zhao (2011) investigated large Australian firms by looking at the various WCM practices they engage in. The behaviour of financial managers in the management of WCM was also considered in the study. Results showed that major factors such as age, gender, education of financial managers, credit rating, firm size, listing, foreign sales and firm performance had an effect on the WCM practices of Australian firms.

Agyei-Mensah (2012) conducted a research study on small businesses in the Ashanti Region of Ghana and their WCM practices. The outcome of the study was that, 17% of the SMEs surveyed inculcate computer usage in managing their WCM. Also, cash budgets were prepared by 57% of the SMEs for the monitoring and management of cash. Owner's or manager's expertise and experience are what most of the SMEs rely on for the predicting optimum level of cash holdings. When it also comes to managing inventory, more than 90% of the SMEs rely on the expertise and experience of owners or managers in determining inventory's optimum level.

Orobia *et al.* (2013) conducted a research by interviewing small business owners on their WCM practices. The outcome of the research study showed that small businesses engage in intuitive planning, recording, monitoring and controlling of working capital. The owners of these small businesses do not need the same level of intricacy to plan, monitor and control WCM as larger firms do. The conclusion of the findings showed that instead of the focus of small business owners being on keeping records conventionally, their focus should rather shift primarily to a management information system for cash flow.

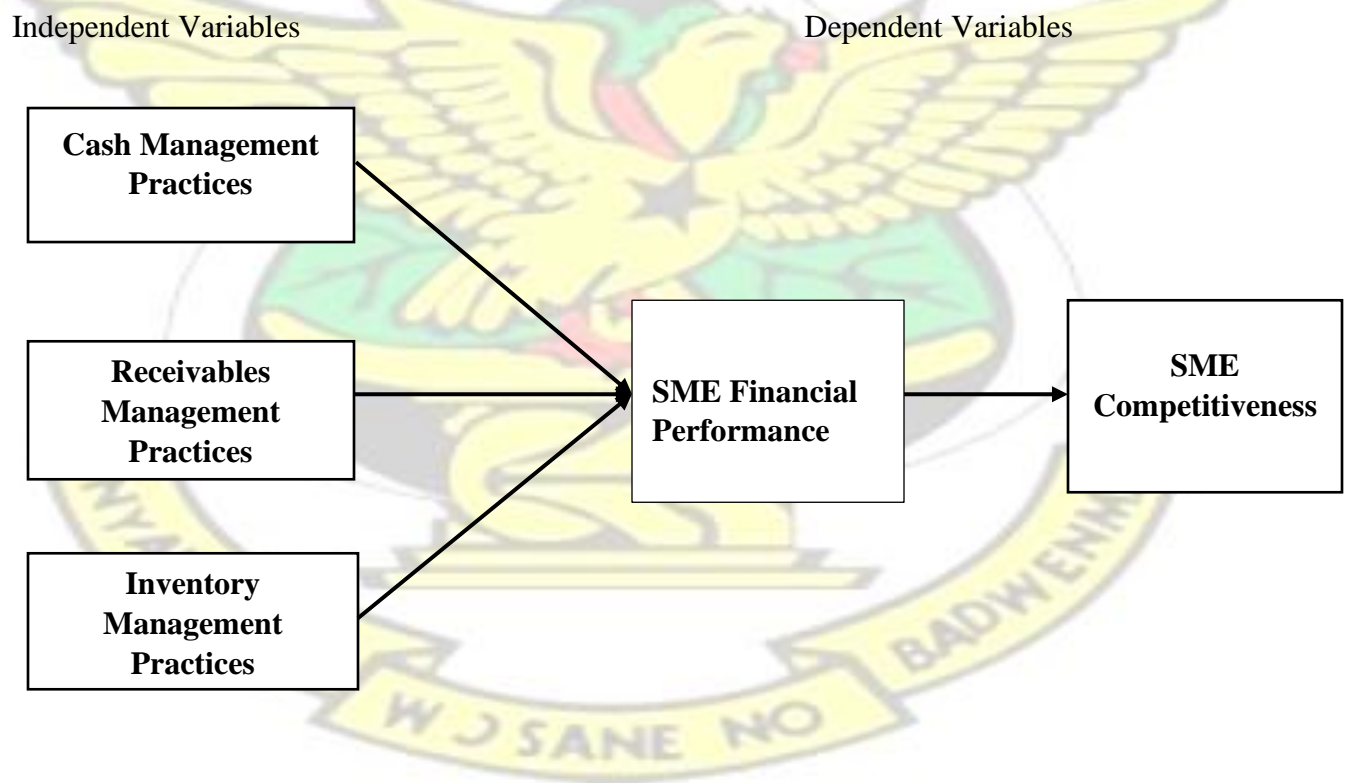
McMahon (2001) conducted an empirical study, where 1763 SMEs in Australia were examined to detect the effect of financial management characteristics and practices on the growth and performance of business. The findings from the study suggested the presence of a positive correlation between the degree of financial management practices adopted and, growth and performance of SMEs.

As referenced by Karadag (2018), empirical studies WCM factors investigated by Deloof (2003), Padachi (2006) and Salazar *et al.* (2012) showed similar prominent correlations between separate constructs of WCM and financial performance and competitiveness of the business entity.

## 2.7 Conceptual Framework

Conceptual framework was used in the making of conceptual distinctions and the organization of ideas. It can be defined as a way ideas are organized to achieve a research study's purpose. Based on the reviewed literature, the independent variables for the study are SMEs' cash, receivables and inventory management practices, and the dependent variables are SMEs' financial performance and business competitiveness. A controlling variable was introduced which looks at the impact of SME owners/ managers' gender on working capital management practices and financial performance of the business.

Figure 2.1 below shows the relationship between the independent and dependent variables:



**Figure 2.1** Conceptual Model

### 2.7.1 Hypotheses of the Study

In developing the first hypothesis, supporting literature was found which showed that, efficient cash management practices would lead to an improved financial performance of SMEs.

According to Padachi (2006), SME owners/ managers who are actively involved in preparing and following up on cash budgets are likely to make the most out of their cash reserves. Also, the receivable-payment schedules are matched easily to ensure an improvement in performance as compared to owners/ managers who struggle to create and manage the amount of cash required for their firm's operations and investments on a daily basis.

Empirical results from the study by Karadag (2018) indicated that, a high positive relationship exists between efficient cash management practices and financial performance of SMEs.

In the development of the second hypothesis, previous literature backing it indicated that an efficient receivables management practices result in an improved performance. SMEs which are particularly positioned to improve receivables management practices by the consistent review of the debtors' credit periods and doubtful receivables levels, would have a shortened cash conversion cycle which ultimately results in an optimum financial performance, instead of shifting all the focus unto increasing sales (Vahid *et al.*, 2012).

Empirical results from the study by Karadag (2018) showed the existence of a moderate positive relationship between efficient receivables management practices and financial performance of SMEs.

In developing the third hypothesis, supporting literature was found indicating that efficient inventory management practices result in a better financial performance of the business.

Notwithstanding the emphasis by small business financial management literature about how vital

inventory management and the requirements for a close monitoring of inventory levels is, the number of empirical studies backing this are limited in number with regard to indicators of a strong relationship between the conduct of inventory management practices and small business performance (Banos-Caballero *et al.*, 2012).

Empirical results from the study by Karadag (2018) indicated a stronger correlation between the conduct of inventory management practices and financial performance in SMEs operating in the manufacturing, commerce and construction sectors and a weaker correlation in the service sector SMEs.

According to Salazar *et al.* (2012), the concept of SME competitiveness is quite a new research avenue for SME scholars. Empirical findings from the study by Karadag (2018) indicated a high correlation between SME financial performance and SME competitiveness. This brought about a perfect opportunity to discuss SME competitiveness concept in relation to financial performance in SMEs.

Good customer relationships or improved personnel/ product/ service quality are considered by SME literatures for the success of small enterprises (Pansanen, 2003), but most often the impact of financial management factors on SME competitiveness are left out (Salazar *et al.*, 2012).

From the empirical studies by Karadag (2018), the correlation was found to be highest in service sector SMEs as compared to the other SME sectors.

Based on previous studies findings above, the following four main hypotheses were proposed and tested by primary data collected from 100 SMEs in the Central Business District of the Kumasi Metropolis:

**Hypothesis 1:** Small and medium-sized enterprises have better financial performance when the conduct of cash management practices is high.

**Hypothesis 2:** Small and medium-sized enterprises have better financial performance when the conduct of receivables management practices is high.

**Hypothesis 3:** Small and medium-sized enterprises have better financial performance when the conduct of inventory management practices is high.

**Hypothesis 4:** The relationship between financial performance and competitiveness in small and medium-sized enterprises is positive.



## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

The chapter deals with the description of the methods and instruments that the researcher employed in the course of the study. This section commences by expounding on the population and sample size used and the research design employed particularly why the approach chosen is appropriate for the research. The chapter also delves into the type of data collection tools selected and the validity of the research instrument used. Finally, the chapter looks at the data analysis technique applied, the ethical considerations observed in the course of the data collection and the entire study. The chapter concludes by summarizing the main points discussed.

#### **3.2 Population and Sample Size**

SMEs in the Kumasi Metropolis, specifically the Central Business District were targeted as the population of the study. Hundred (100) SMEs of all kinds – manufacturing, commerce, construction and services and of all legal forms – sole proprietorship, limited liability companies and joint stock companies were targeted. Some of these SMEs possess the required funds and finance units set up or a financial manager while others outsource such services. SMEs that have or do not have a finance/ accounting unit were both engaged in for the study.

In determining the population sample, non-probability sampling (convenience sampling) was employed. Convenience sampling involves the selection of a sample of the population by counting on participants' readiness and willingness to partake in the study (Saunders *et al.*, 2016). There

was a reduction in the time the researcher used in accessing information from participants as engagement was limited to those who were readily available and also willing to be part of the study.

### **3.3 Research Design**

According to Wood & Haber (1998), “some consider research design to be the entire strategy for the study, from identifying the problem to finding plans for data collection. Others limit research design to clearly defined structural framework within which the study is implemented”. The data gathered from the field enable the researcher to generalize the findings from a sample of responses to the population.

The type of research design adopted for the study is descriptive research design. This was chosen because the study involves a systematic gathering and presentation of data to give a vivid picture of a specific situation and duration for the study is also short. Survey was performed with the aim of getting an appropriate information that is related to the effect of working capital management practices, specifically cash, receivables and inventory management practices on the performance and competitiveness of SMEs in the central business district of the Kumasi metropolis, from SME owners and managers.

### **3.4 Research Instrument**

Primary data was used in the collection of data through the administration of structured questionnaires to participants. The use of questionnaire is significant as it employs the use of structured questions which are highly objective and eliminates almost all issues of biases (Zikmund *et al.*, 2013). Time is saved as questions provided on the questionnaires are easy to understand and

respond to. The research is a quantitative study and hence the use of questionnaire is more appropriate as compared to verbal interview (Hancock & Algozzine, 2015).

The questionnaire is structured into four sections – respondents' personal information, the profile of the particular SME, the independent variables (cash, receivables and inventory management practices) and evaluation of the company on its performance and competitiveness (dependent variables).

For the measurement of the effect of the conduct of cash, receivables and inventory management practices on SME financial performance and competitiveness, Nguyen (2001) questionnaire and scales are employed as adopted by Karadag (2018). A 9-point Likert scale measurement system accompanied by eight (8) questions for each financial management practice is applied in the third section of the question.

For the measurement of SME performance and competitiveness, Duesing (2009) questionnaire and scales are employed as adopted by Karadag (2018). Five indicators of return on investments, profit to sales ratio, overall financial performance, sales growth and market share, ranked by respondents on a 7-point Likert scale with respect to similar SMEs was used for collecting data on the fourth section of the questionnaire.

The proxies for independent variables are Cash Management Practices, Receivables Management Practices and Inventory Management Practices. The proxies for the dependent variables are Return on Investment, Profit on Sales ratio, Overall Financial Performance, Sales Growth and Market Share. The control variable's proxy on the other hand is the Gender of SME Owners/ Managers.

The questionnaires were administered personally by the researcher on these dates: 13/07/2020, 14/07/2020, 15/07/2020, 17/07/2020, 20/07/2020 and 22/07/2020.

### **3.5 Validity and Reliability of the Research Instrument**

Validity is the degree to which a concept of a quantitative research is measured correctly. According to Roberta & Alison (2015), construct validity points to the ability to draw suggestions about test scores in connection to the concept being studied. The concept of validity and reliability are intertwined and Sullivan & Feldman (1979) pointed to the fact that a measurement can only be termed as valid when it is reliable.

In testing the reliability of the scores of the survey scale, Cronbach's alpha will be used. A Cronbach's alpha which has a value greater than 0.70 constitutes a higher reliability score.

### **3.6 Data Analysis Technique**

Respondents were assisted in understanding the questions in the questionnaire where necessary to ensure an appropriate and accurate completion of information required. The Statistical Package for the Social Sciences (SPSS) v20 program was used in coding, entering and analyzing data gathered from the field of study, specifically the researcher applied descriptive and regression analyses to perform the data analysis.

Descriptive and regression analyses are significant when assessing data of quantitative nature as it enables the researcher to do a summary of the average demographics of the data gathered and being utilized (Denscombe, 2014). The set of data gathered in this study are made up of responses from the owners and managers of the selected SMEs in the CBD of the Kumasi Metropolis.

SEM (Structural Equation Modeling) method was employed for the testing of the hypotheses of the study. SEM allows a researcher to conduct and combine wide range of statistical procedures such as factor analysis, multiple regression, ANOVA and others (Nachtigall *et al.*, 2003).

### **3.7 Overview of the Central Business District of the Kumasi Metropolis**

Kumasi is located in the Ashanti region of Ghana and it is the second largest city in the country after Accra (Akaateba *et al.*, 2015). It is also one of the largest metropolitan areas in Ghana as well as serving as one of the prominent commercial nerve centre. Most of the produce such as timber, gold, cocoa and other foodstuffs from the surrounding remote areas in the region are being handled by Kumasi on their first phase of their transit to the export markets. The city links southern and northern Ghana. The city is in a rain forest region and serves as the cultural, industrial and commercial capital of the historical Asante Empire.

The central business district constitute a large portion of the commercial activities of the city and it is made up of the areas of Adum, Kejetia, Bantama and Bompata (also referred to as Roman Hill). The central business district is proliferated with financial institutions, department stalls, hotels and many small and medim-sized enterprises.

### **3.8 Ethical Consideration**

Before conducting the study, participants were informed by the researcher on the study objectives and a critical attention was placed on ethical issues in seeking consent, eliminating any form of deception, maintaining confidentiality, respecting the privacy and protecting the anonymity of all respondents. The law of ethics on research condemns conducting a research without the consent

of the respondents for the reasons listed above and this necessitated the need for the researcher to uphold these ethical issues.

### 3.9 Summary of Chapter

In the nutshell, this chapter elaborates on the most appropriate tools and methods employed for this study and their application.

Firstly, the population of the study is identified as the central business district of the Kumasi Metropolis and the sample size is 100 SMEs selected through convenience sampling. Furthermore, descriptive research design via survey was used in the study. Also primary data was used in collecting data on the field through questionnaire administration and the reliability of the survey scale scores was tested with Cronbach's alpha. Due to the quantitative nature of the data gathered, descriptive and regression analyses will be used for the data analysis.

The study hypotheses was tested using Structural Equation Modeling (SEM). An overview of the Kumasi Metropolis and central business district is captured in the chapter and finally, the researcher's observation of all ethical practices in his interaction with participants for the study is stated.

## **CHAPTER FOUR**

### **RESULTS AND ANALYSIS**

#### **4.1 Introduction**

This chapter looks at the data and analyzes the findings obtained from the data based on the study objectives in chapter one. The first part of the chapter presents the demographics of the respondents. The second part looks at the results of factor analyses of the independent variables and dependent variables. The third part of the chapter delves into the hypotheses testing of the study and finally the results of the regression analyses of the potential impact of industry and gender differences on the three constructs of WCM (cash, receivables and inventory management practices) the study looks at and financial performance.

#### **4.2 Demographic Profile**

Among the 100 respondents the researcher engaged in the study, 59 were males and 41 were females. Majority of the respondents' age group fall within the range of 30 – 39 years, followed by those in the ranges of 40 – 49 years, 50 – 59 years, 20 – 29 years and, 60 years and above. The age range with the least respondents were those below 20 years.

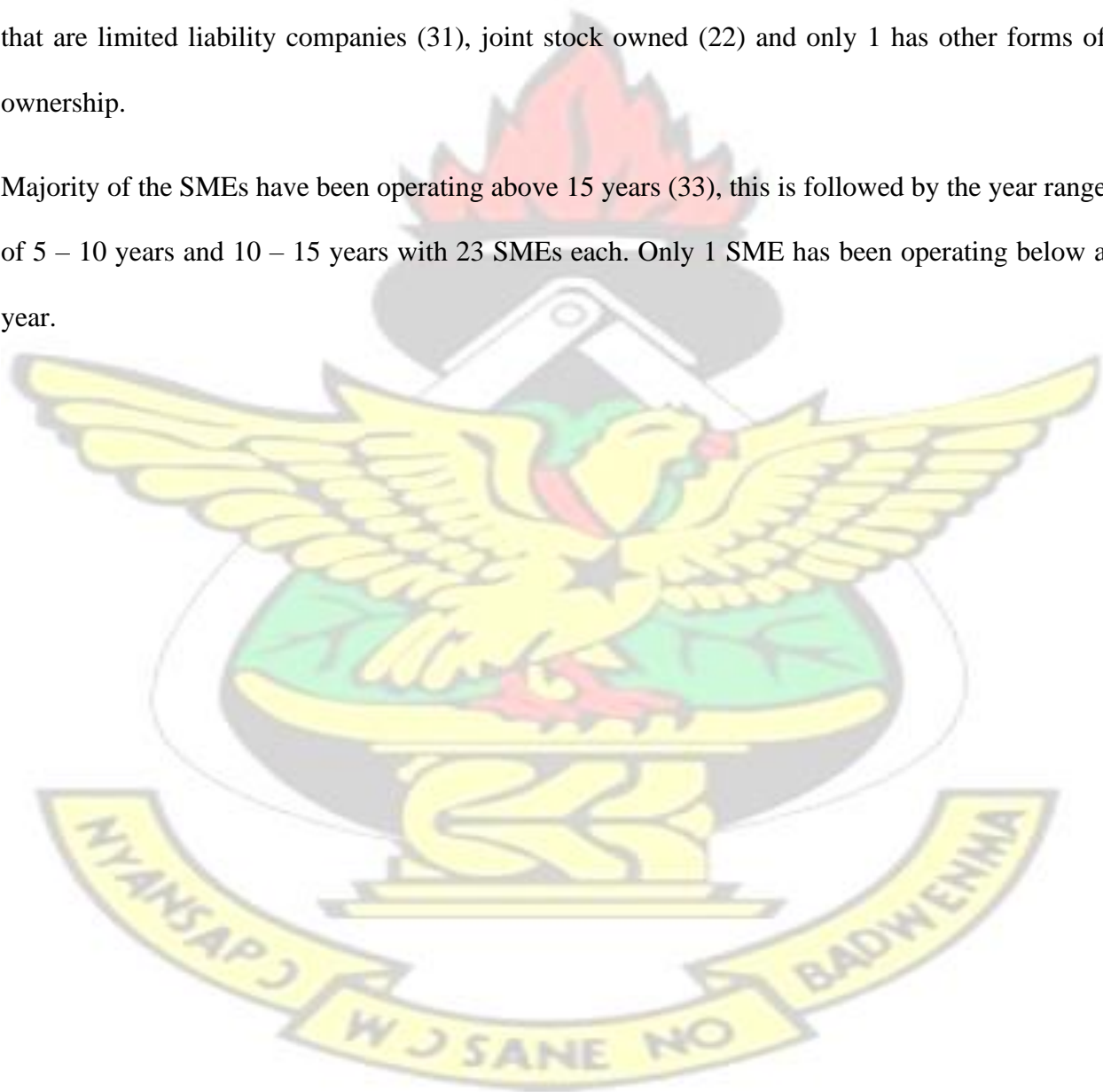
Most of the respondents have had some form of formal education, with the majority being tertiary education (42) and only 5 respondents have had no form of formal education.

In relation to the work position and responsibilities of respondents, majority are Sales/ Finance Managers and Owners recording 38 and 32 respectively. 28 of the respondents are General

Managers of their respective SMEs. Only 2 respondents play neither a managerial nor owner roles in their respective SMEs.

Majority of the SMEs (38) engaged in the study fall under the commerce or trading sector, followed by the manufacturing sector (22), construction sector (20) and services sector (19). With the legal status of the SMEs, most of them are sole proprietorship owned (46), followed by those that are limited liability companies (31), joint stock owned (22) and only 1 has other forms of ownership.

Majority of the SMEs have been operating above 15 years (33), this is followed by the year range of 5 – 10 years and 10 – 15 years with 23 SMEs each. Only 1 SME has been operating below a year.



**Table 1.** Demographic data

ITEM	ATTRIBUTE	PERCENTAGE (%)
Gender	Male	59
	Female	41
	Total	100
Age	Below 20 years	1
	20 – 29 years	19
	30 – 39 years	33
	40 – 49 years	24
	50 – 59 years	20
	60 years and above	3
	Total	100
Education	None	5
	Primary	10
	JHS	6
	SHS	28
	Tertiary	42
	Higher	9
	Total	100
Work Position	Owner	32
	General Manager	28
	Sales/ Finance Manager	38
	Other	2
	Total	100
Sector	Manufacturing and Sales	23
	Commerce	38
	Services	19
	Construction	20
	Total	100
Legal Status	Sole Proprietorship	46
	Limited Company	31
	Joint Stock	19
	Total	100

### 4.3 EFFECT OF CASH, RECEIVABLES AND INVENTORY MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE

#### 4.3.1 Results of the effect of Cash Management Practices on Financial Performance

	Original Sample(O)	Sample Mean	Std Dev.	T Statistics	P Values
Cash management -> Financial performance <b>R<sup>2</sup>=0.816</b>	0.903	0.904	0.015	62.084	0.000

Table 2. Effect of cash management practices on financial performance

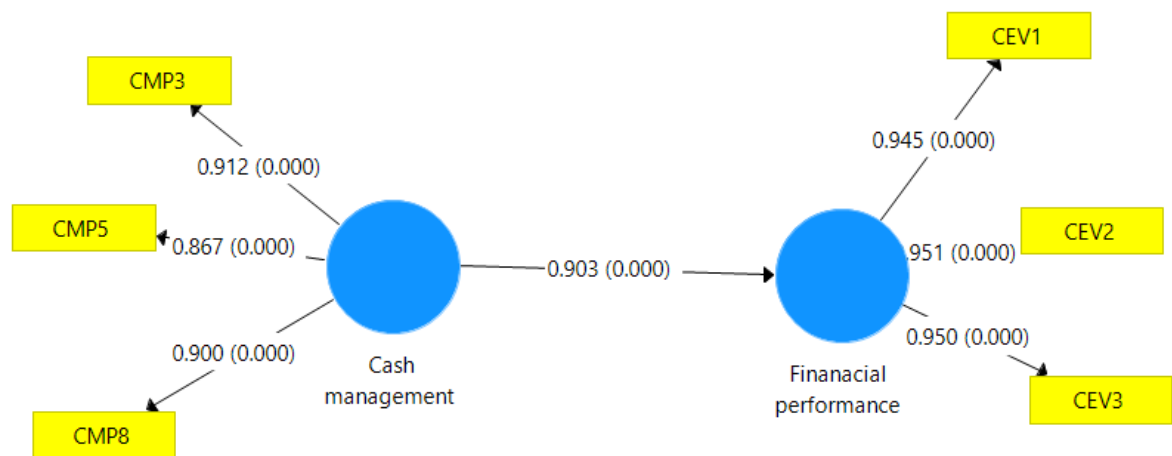


Fig. 4.1. Effect of Cash management Practices on Financial Performance

In Table 2, the co-efficient of determination,  $R^2 = 0.816$  which indicates that 81.6% of the variance in Financial Performance is explained by Cash Management Practices.

In checking for multicollinearity, the model (Fig. 4.1) picked the absolute contributions of CMP3, CMP5 and CMP8 to the latent variable - Cash Management Practice which have high determinants

of 0.912, 0.867 and 0.900 respectively. CMP3 denotes the third Cash Management Practice item on the questionnaire which identifies the involvement of the SME owner/ manager in the preparation, interpretation and monitoring of cash budgets; CMP4 denotes the fourth Cash Management Practice item on the questionnaire which identifies the usefulness of cash budgets in providing information for making business-related decisions; CMP8 denotes the eighth Cash Management Practice item on the questionnaire which also identifies the computerization of cash management practices in the business.

The absolute contribution of CEV1, CEV2 and CEV3 to Financial Performance also recorded high determinants of 0.945, 0.951 and 0.950 respectively.

CEV1, CEV2 and CEV3 represent the proxies for SME Financial Performance, which are Return on Investment, Profit to Sales Ratio and Overall Financial Performance respectively.

A path co-efficient of 0.903 was recorded (Fig. 4.1) in the model and this signifies a strong relationship between Cash Management Practices and Financial Performance.

The results supports the first hypothesis which states that, small and medium-sized enterprises have better financial performance when the conduct of cash management practices is high. The findings from this can be linked to the empirical studies of (Block & Hirt, 2004; Padachi, 2006) which emphasized that, SME owners/ managers who play active roles in the preparation and follow up of cash budget and cash reserves are at a better chance of achieving an improved performance for their business than owners/ managers that experience difficulties in creating and managing the requisite cash for both the day-to-day operations and investments of the business.

#### 4.3.1.1 Diagnostic tests

Table 3. Variance Inflation Factor

CEV1	4.32
CEV2	4.66
CEV3	4.756
CMP3	2.673
CMP4	2.108
CMP8	2.421

Table 4. Outer Loadings

	Cash management	Financial performance
CEV1		0.945
CEV2		0.951
CEV3		0.950
CMP3	0.912	
CMP4	0.867	
CMP8	0.900	

Table 5. Discriminant Validity

	Cash management	Financial performance
Cash management	0.893	
Financial performance	0.903	0.949

Table 6. Construct Reliability and Validity

	Cronbach's Alpha	rh_A	Composite Reliability	Average variance Extracted
Cash management	0.873	0.877	0.922	0.798
Financial performance	0.944	0.945	0.964	0.900

A Variance Inflation Factor (VIF) was investigated to ascertain the existence of probable multicollinearity in the data set. “Harmful correlation among the variables can lead to a misrepresentation of the relationships in the model and an overestimation of the R-square” (Hilmersson, 2014). The investigation revealed the VIF values in Table 3 which are less than 5 and depicts an acceptable level of collinearity.

The discriminant validity which determines whether or not the constructs in the model are highly correlated among themselves, was conducted and the values are at an acceptable level as shown in Table 5. The construct reliability and validity which indicates the measure of internal consistency in scale items when conducted indicated acceptable values of Cronbach’s alpha, composite reliability and average variance extracted.

#### 4.3.2 Results of the effect of Receivable Management Practices on financial performance

	Original Sample(O)	Sample Mean	Std Dev.	T Statistics	P Values
Receivable management - > Financial performance <b>R<sup>2</sup>=0.58</b>	0.761	0.765	0.035	22.035	0.000

Table 7. Effect of Receivable Management Practices on Financial Performance

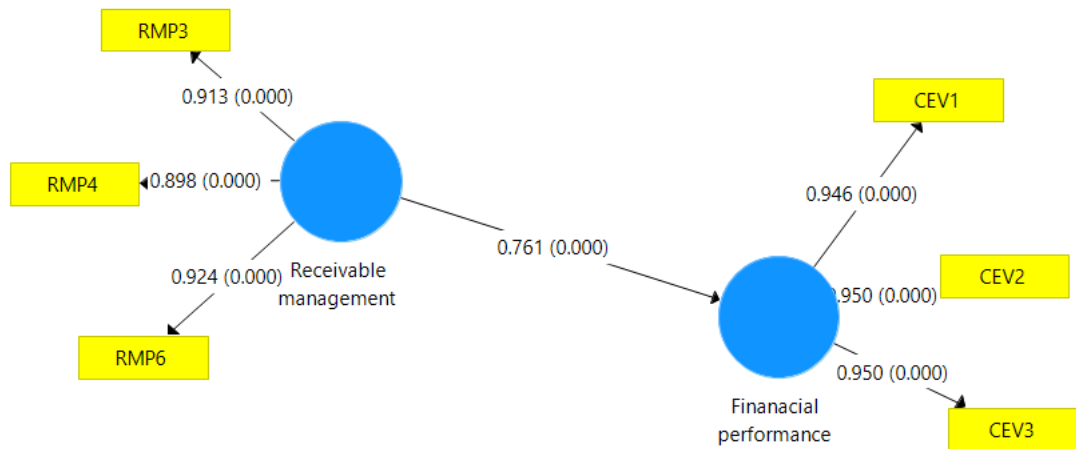


Fig. 4.2. Effect of Receivable Management Practices on Financial Performance

In Table 7, the co-efficient of determination,  $R^2 = 0.58$  which implies that 58% of the variance in Financial Performance is explained by Receivable Management Practices.

In checking for multicollinearity, the model (Fig. 4.2) picked the absolute contributions of RMP3, RMP4 and RMP6 to Receivable Management Practice which have high determinants of 0.913, 0.898 and 0.924 respectively.

RMP3 denotes the third Receivable Management Practice item on the questionnaire which identifies whether or not the business experience any problem in the collection of receivables; RMP4 denotes the fourth Receivable Management Practice item on the questionnaire which identifies whether or not there exist a reasonable debtor's discount policy in the business; RMP6 denotes the sixth Receivable Management Practice item on the questionnaire which also identifies whether or not the business' percentage of bad debts are reasonable.

The absolute contribution of CEV1, CEV2 and CEV3 to Financial Performance also recorded a high determinants of 0.946, 0.950 and 0.950 respectively.

A path co-efficient of 0.761 recorded in the model (Fig. 4.2) signifies a strong relationship between Receivable Management Practices and Financial Performance.

The results support the second hypothesis which states that, small and medium-sized enterprises have better financial performance when the conduct of receivables management practices is high.

SMEs strive to improve their receivables management practices via a regular review of the credit periods of debtors and also the number of doubtful receivables rather than shifting the focus on sales increase which will result in a shortened cash conversion cycle and improve on financial performance (Padachi, 2006).

The current empirical evidence of the research depicts that, there is an existence of a high positive correlation between the conduct of receivables management practices and financial performance of SMEs which can be linked to previous studies.

#### 4.3.2.1 Diagnostic Tests

Table 8. Variance Inflation Factor (VIF)

CEV1	4.32
CEV2	4.66
CEV3	4.766
RMP3	3.018
RMP4	2.382
RMP8	3.245

Table 9. Outer Loadings

	Financial performance	Receivable management
CEV1	0.946	
CEV2	0.950	
CEV3	0.950	
RMP3		0.913
RMP4		0.898
RMP6		0.924

Table 10. Discriminant Validity

	Receivable management	Financial performance
Receivable management	0.949	
Financial performance	0.761	0.912

Table 11. Construct Reliability and Validity

	Cronbach's Alpha	rh_A	Composite Reliability	Average variance Extracted
Financial performance	0.944	0.944	0.964	0.900
Receivable management	0.898	0.899	0.936	0.831

The VIF values in Table 8 depicts an acceptable level of collinearity.

The discriminant validity which determines whether or not the constructs in the model are highly correlated among themselves, was conducted and the values are at an acceptable level as shown in Table 10. The construct reliability and validity which indicates the measure of internal consistency in scale items when conducted indicated acceptable values of Cronbach's alpha, composite reliability and average variance extracted.

### 4.3.3 Results of the effect of Inventory Management on Financial Performance

	Original Sample(O)	Sample Mean	Std Dev.	T Statistics	P Values
Inventory management -> Financial performance <b>R<sup>2</sup>=0.607</b>	0.779	0.780	0.036	21.396	0.000

Table 12. Effect of Inventory Management Practice on Financial Performance

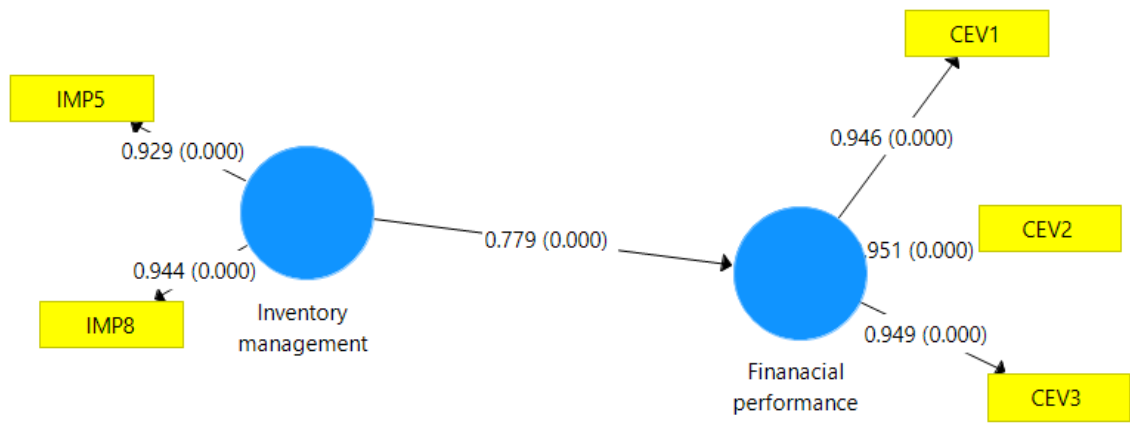


Fig. 4.3. Effect of Inventory Management on Financial Performance

In Table 12, the co-efficient of determination,  $R^2 = 0.607$  which implies that 60.7% of the variance in Competitiveness is explained by SME Financial Performance.

In checking for multicollinearity, the model (Fig. 4.3) picked the absolute contributions of IMP5 and IMP8 to Inventory Management Practice which have high determinants of 0.929 and 0.944 respectively. IMP5 denotes the fifth Inventory Management Practice item on the questionnaire

which identifies whether or not the business' inventory management practice level is at industry average and IMP8 denotes the eighth Inventory Management Practice item on the questionnaire which identifies the computerization of inventory management practices in the business.

The absolute contribution of CEV1, CEV2 and CEV3 to Financial Performance also recorded a high determinants of 0.946, 0.951 and 0.949 respectively.

A path co-efficient of 0.779 recorded in the model (Fig. 4.3) signifies a strong relationship between Inventory Management Practices and Financial Performance.

The results supports the third hypothesis which states that, small and medium-sized enterprises have better financial performance when the conduct of inventory management practices is high.

Empirical results from previous literature (Nguyen, 2001; Pharm, 2010) depicted a strong positive relationship between inventory management practices' conduct and SME financial performance. In this research, a high positive relationship also exists between the conduct of inventory management practices and financial performance of SMEs.

#### 4.3.3.1 Diagnostic Tests

Table 13. Variance Inflation Factor

CEV1	4.32
CEV2	4.66
CEV3	4.756
IMP5	2.334
IMP8	2.334

Table 14. Outer Loadings

	Financial performance	Inventory management
CEV1	0.946	
CEV2	0.951	
CEV3	0.949	
IMP5		0.929
IMP8		0.944

Table 15. Discriminant Validity

	Financial performance	Inventory management
Financial performance	0.949	
Inventory management	0.779	0.937

Table 16. Construct Reliability and Validity

	Cronbach's Alpha	rh_A	Composite Reliability	Average variance Extracted
Financial performance	0.944	0.945	0.964	0.900
Inveentory management	0.861	0.869	0.935	0.878

The VIF values in Table 13 depicts an acceptable level of collinearity. The values for discriminant validity are at an acceptable level as shown in Table 15. The values for the Cronbach's alpha, composite reliability and average variance extracted are also acceptable levels.

## 4.4 THE RELATIONSHIP BETWEEN FINANCIAL PERFORMANCE AND COMPETITIVENESS

### 4.4.1 Results of the relationship between Financial Performance and Competitiveness

	Original Sample(O)	Sample Mean	Std Dev.	T Statistics	P Values
<b>Financial Performance - &gt; Competitiveness <math>R^2=0.86</math></b>	0.926	0.925	0.013	72.404	0.000

Table 17. Relationship between SME Financial Performance and Competitiveness

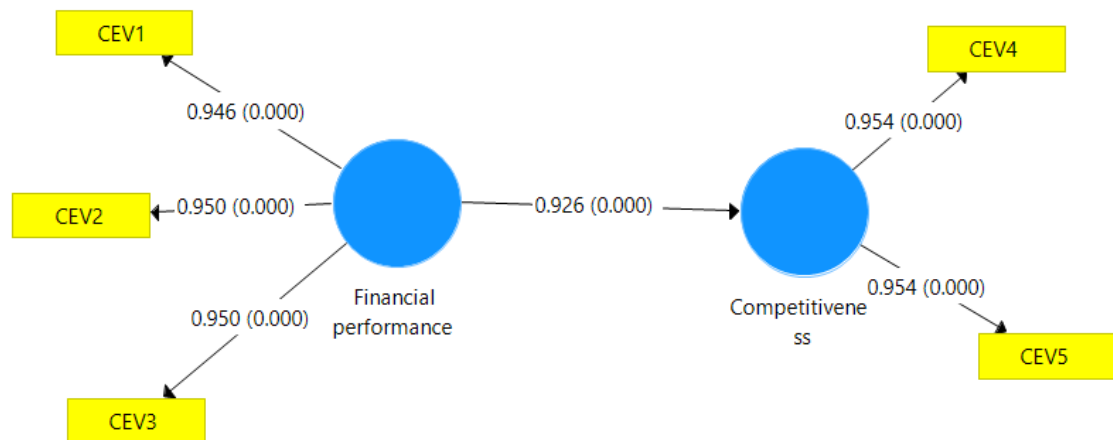


Fig. 4.4. Relationship between SME Financial Performance and Competitiveness

The co-efficient of determination,  $R^2 = 0.86$  implies that 86% of the variance in Competitiveness is explained by SME Financial Performance.

A path co-efficient of 0.926 recorded in the model (Fig. 4.4) signifies a strong positive relationship between SME Financial Performance and competitiveness.

The results supports the fourth and final hypothesis which states that, the relationship between financial performance and competitiveness in small and medium-sized enterprise is positive. Literatures on SMEs look at numerous factors for the success of SMEs which includes good relationships between customers, improvement in personnel and product, and a keen interest in the quality of service provided (Pasanen, 2003).

From the current empirical evidence from this study, there exist a high positive correlation between SME financial performance and competitiveness.

#### 4.4.2 Diagnostic Tests

Table 18. Variance Inflation Factor

CEV1	4.32
CEV2	4.66
CEV3	4.756
CEV4	3.066
CEV5	3.066

Table 19. Outer Loadings

	Competitiveness	Financial performance
CEV1		0.946
CEV2		0.950
CEV3		0.950
CEV4	0.954	
CEV5	0.954	

Table 20. Discriminant Validity

	Competitiveness	Financial performance
Competitiveness	0.954	
Financial performance	0.926	0.949

Table 21. Construct Reliability and Validity

	Cronbach's Alpha	rh_A	Composite Reliability	Average variance Extracted
Competiveness	0.902	0.902	0.953	0.910
Financial performance	0.944	0.944	0.964	0.900

The VIF values in Table 18 depicts an acceptable level of collinearity.

The values for discriminant validity are at an acceptable level as shown in Table 20. The values for the Cronbach's alpha, composite reliability and average variance extracted are also acceptable levels.

#### 4.5 CONTROLLING VARIABLE

The probable impact of SME owner/ manager's gender on cash, receivables and inventory management practices and their association with financial performance was also tested using Ordinary Least Squares (OLS).

For cash management practices (CMP), there was significance in the impact of items like age, education and ownership of the business but none for gender.

CMP	Coef.	Std. Err.	t	P> t
Gender	.2709845	.2418063	1.12	0.265
Age	.33201	.1147277	2.89	0.005
Education	.9518687	.1113865	8.55	0.000
Ownership	.565681	.1631338	3.47	0.001
_cons	-1.064755	.7862425	-1.35	0.179

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of CMP

chi2 (1) = 0.15

Prob > chi2 = 0.6992

Ramsey RESET test using powers of the fitted values of CMP

Ho: model has no omitted variables

F (3, 92) = 2.19

Prob > F = 0.0940

For Receivables Management Practices (RMP), there was significance in the impact of items like age, education and ownership of the business but none for gender.

RMP	Coef.	Std. Err.	t	P> t
Gender	.3554252	.270458	1.31	0.192
Age	.4534695	.1283218	3.53	0.001
Education	.9161144	.1245847	7.35	0.000
Ownership	.7705488	.1824635	4.22	0.000
_cons	-1.934959	.8794043	-2.20	0.030

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of RMP

chi2 (1) = 0.15

Prob > chi2 = 0.7023

Ramsey RESET test using powers of the fitted values of RMP

Ho: model has no omitted variables

$F(3, 92) = 1.10$

Prob > F = 0.3553

For Inventory Management Practices (IMP), there was significance in the impact of items like age, education and ownership of the business but none for gender.

IMPT	Coef.	Std. Err.	t	P> t
-----+-----				
Gender	.0107864	.013559	0.80	0.428
Age	-.0015544	.0064332	-0.24	0.810
Education	-.0201916	.0062458	-3.23	0.002
Ownership	-.0279661	.0091475	-3.06	0.003
_cons	.332857	.0440875	7.55	0.000
-----				

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of IMPT

$\chi^2(1) = 0.39$

Prob >  $\chi^2 = 0.5336$

Ramsey RESET test using powers of the fitted values of IMPT

Ho: model has no omitted variables

$F(3, 92) = 0.28$

Prob > F = 0.8387

For Financial Performance (FP), there was significance in the impact of items like age, education and ownership of the business but none for gender.

NFP	Coef.	Std. Err.	t	P> t
Gender	.036933	.1355763	0.27	0.786
Age	.171045	.0643257	2.66	0.009
Education	.4930577	.0624523	7.89	0.000
Ownership	.2660457	.0914661	2.91	0.005
_cons	-3.195158	.4408314	-7.25	0.000

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of NFP

chi2 (1) = 0.14

Prob > chi2 = 0.7071

Ramsey RESET test using powers of the fitted values of NFP

Ho: model has no omitted variables

F (3, 92) = 2.54

Prob > F = 0.0616

The p-value scores in all models of the impact of gender on Cash Management Practices, Receivables Management Practices, Inventory Management Practices and Financial Performance are 0.265, 0.192, 0.428 and 0.786 respectively and are greater than 0.05, it implies that, no relevant difference was found with regards to the impact of the gender of SME owners/ managers on working capital management practices and financial performance, contrary to the findings shown in previous studies (Okoro, 2007; Hettihewa & Wright, 2010).

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATION**

#### **5.1 Conclusions**

The study confirms the significance of cash, receivables and inventory management practices on the financial performance and how these practices when inculcated into the daily business operations go a long way in making SMEs competitive too, irrespective of their limited resources.

The demographics of the respondents in the survey of 100 SMEs in the central business district of the Kumasi Metropolis showed majority of owners and managers falling within the age bracket of 30 years – 49 years old and majority of these SMEs operating for over 5 years. Majority of the owners/ managers also have a tertiary form of formal education. Looking at the maturity, experience and education of these owners/ managers, quite a good number of them pay close attention to issues of working capital management in their business.

Based on the findings of the study, a higher conduct of the three major constructs of working capital management impacts on SME performance and competitiveness and therefore should be given attention collectively in the business set up.

With respect to cash management practices, owners/ managers are to critically look at the preparation of annual or periodic cash budgets. Cash budgets provide vital information that helps in making decisions that are business-related. Through cash budgets, owners/ managers are able to foresee and predict cash deficits or surpluses in the offing. Owners/ managers of SMEs who do not possess the requisite expertise to prepare cash budgets but employs the services of external professionals are able to experience an efficient cash management, which impacts on the financial

performance and competitiveness of the business as compared to those who do not pay much attention to this financial management practice.

On the receivables management practices, although most of the SMEs engaged in the survey had a prominent regard for it, some approach issues of receivables management lackadaisically and this has negatively affected the performance of these businesses in the long run.

Practically, activities such as a frequent review of debtors' credit period, adoption of a reasonable debtors' discount policy and close monitoring of doubtful receivables improves on a firm's performance and competitiveness in the long haul.

With regards to inventory management practices, most SMEs in the pool surveyed have a high regard for inventory management practices. However, some SMEs in the services sector who have no need for inventory and therefore their management still have a better financial performance and competitiveness due to the nature of that part of the sector.

An efficient inventory management practice involves frequent monitoring of the levels and turnover ratio of inventory. Prioritizing the preparation of inventory budgets in the business also play a key role in serving as a check on inventory surpluses and potential run-outs.

SME owners/ managers who are not so computer-inclined do not see the need to inculcate the computerization of the firm's working capital management practices into their business. The computerization process aids in easy accessibility of information to aid in making decisions which are business-related.

SMEs that computerize their cash, receivables and inventory management have a better financial performance and are very competitive.

## 5.2 Recommendations

Based on the findings of the survey, these recommendations are being suggested to the various stakeholders;

Firstly, all relevant agencies under the auspices of the government such as the NBSSI, Rural Enterprise Programme, Ghana Export Promotion, GRATIS Foundation of Ghana, the Ghana Free Zone Board should create and organize educational programmes for owners and managers of SMEs. These could include taking them through the preparation and the following up of cash budgets and inventory budgets, and also how to efficiently manage working capital in the business.

Secondly, SME owners/ managers who lack accounting skills and expertise should inculcate into their businesses the outsourcing of financial management practices to external professionals. This will help in ensuring an efficient working management practices and improve on their firm's financial performance and competitiveness.

Finally, policy makers, banks and other financial institutions should regularly make available soft loans SMEs can assess. This will go a long way to help owners/ managers of SMEs to strengthen the financial performance of the business in uncertain periods of financial distress. This would curb the problem of SMEs folding up rampantly.

## 5.3 Limitations

Certain limitations may affect the extent to which the findings in the study can be used and applied.

The study was only limited to the central business district of the Kumasi Metropolis, which as shown in the study, has quite a vibrant SME environment compared to other areas in the

metropolis. Application of the findings outside the central business district area should be done with caution. However, the extent of application and scope of the findings was improved in the study by comparing the data with findings of earlier literature and findings.

Also, the sample size used was relatively small and may not represent the entire Kumasi Metropolis. The researcher minimized this limitation by collecting data from very busy areas within the central business district.



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## QUESTIONNAIRE

I am a student of KNUST working on my Dissertation for the award of Master of Business Administration (MBA) in Accounting on the topic: **Effect of working capital management practices on financial performance and competitiveness of small and medium-sized enterprises in the Kumasi Metropolis.**

I would therefore be grateful if you could kindly answer the following questions by ticking the appropriate option. The privacy and confidentiality of information provided shall be observed.

### PERSONAL INFORMATION

1. Gender:	<input type="checkbox"/> Male	<input type="checkbox"/> Female				
2. Age:	<input type="checkbox"/> Below 20 years	<input type="checkbox"/> 20 – 29yrs	<input type="checkbox"/> 30 – 39yrs	<input type="checkbox"/> 40 - 49yrs	<input type="checkbox"/> 50 – 59yrs	<input type="checkbox"/> 60yrs and above.
3. Highest level of education:	<input type="checkbox"/> None	<input type="checkbox"/> Primary	<input type="checkbox"/> JHS	<input type="checkbox"/> SHS	<input type="checkbox"/> Tertiary	<input type="checkbox"/> Higher
4. Which title best describes your work position and responsibilities?	<input type="checkbox"/> Owner	<input type="checkbox"/> General Manager	<input type="checkbox"/> Sales/ Finance Manager	<input type="checkbox"/> Other		

### COMPANY PROFILE

5. What sector are you in?	<input type="checkbox"/> Manufacturing and sales	<input type="checkbox"/> Commerce	<input type="checkbox"/> Services	<input type="checkbox"/> Construction	<input type="checkbox"/> Other		
6. Ownership:	<input type="checkbox"/> Sole Proprietorship	<input type="checkbox"/> Limited Company	<input type="checkbox"/> Joint Stock				
7. Duration of operation:	<input type="checkbox"/> 0 – 6 months	<input type="checkbox"/> 6 months – 1yr	<input type="checkbox"/> 1yr – 2yrs	<input type="checkbox"/> 2yrs – 5yrs	<input type="checkbox"/> 5yrs – 10yrs	<input type="checkbox"/> 10yrs – 15yrs	<input type="checkbox"/> Above 15yrs

### CASH, RECEIVABLES & INVENTORY MANAGEMENT PRACTICES

Please indicate the most appropriate number that describes your business position on the scale.

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
<b>Extremely Negative</b>	<b>Negative</b>	<b>Moderately Negative</b>	<b>Lowly Negative</b>	<b>Neither Negative nor Positive</b>	<b>Lowly Positive</b>	<b>Moderately Positive</b>	<b>Positive</b>	<b>Extremely Positive</b>

<b>CASH MANAGEMENT PRACTICES</b>										
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
8.	Our business has high regard for cash management practices.									
9.	Annual or periodical cash budgets are prepared in our company.									
10.	The owner/ manager is involved in preparing, interpreting and monitoring cash budgets.									
11.	Cash budgets are useful in providing information for making business decisions.									
12.	We do not have cash deficit in our company.									
13.	We do not have unforeseen cash surplus in our company.									
14.	Our business applies theories of cash management in determining the target cash balance.									
15.	Cash management practices are computerized in our business.									

<b>RECEIVABLES MANAGEMENT PRACTICES</b>										
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
16.	Our business has high regard for receivables management practices.									
17.	We frequently review debtors' credit period in our company.									
18.	We do not experience any problem in collecting receivables.									
19.	We have reasonable debtors' discount policy in our business.									
20.	Our doubtful receivables are closely monitored.									
21.	Our percentage of bad debts is reasonable.									
22.	We implement theories of receivables management for preparing our receivables forecasts and plans.									
23.	Receivables management practices are computerized in our business.									

INVENTORY MANAGEMENT PRACTICES		1	2	3	4	5	6	7	8	9
24.	Our business has high regard for inventory management practices.									
25.	We frequently monitor our inventory turnover ratio.									
26.	We frequently monitor our inventory levels.									
27.	We do not have inventory surplus in our business.									
28.	Our industry level is at industry averages.									
29.	We prepare and monitor inventory budgets in our business.									
30.	Inventory budgets are useful in providing information for making business-related decisions.									
31.	Inventory management practices in our business are computerized.									

### COMPANY EVALUATION

Please indicate how you evaluate your company with regard to similar firms. Tick the space in each line that best represents your opinion.

1	2	3	4	5	6	7
<b>Extremely Bad</b>	<b>Bad</b>	<b>Moderately Bad</b>	<b>Neither Good nor Bad</b>	<b>Moderately Good</b>	<b>Good</b>	<b>Extremely Good</b>

COMPANY EVALUATION		1	2	3	4	5	6	7
32.	Return on investments							
33.	Profit to sales ratio							
34.	Overall financial performance							
35.	Sales growth							
36.	Market share							

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