UNIVERSITY OF CAPE COAST

EXPLORATION OF FINANCIAL MANAGEMENT PRACTICES OF SMALL AND MEDIUM SCALE ENTERPRISES IN TWIFO HEMANG LOWER DENKYIRA DISTRICT

BY

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Dissertation presented to Department of Management Studies, School of Business, College of Humanities and Legal Studies, University of Cape Coast, in partial fulfilment for the requirements for the Award of Master of Business Administration (General Management) Degree

OCTOBER 2016

DECLARATION

Candidate's Declaration

I hereby declare that this paper is the result of my own original research and no part of it has been presented to the University Cape Coast or elsewhere.

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

Name: …………………………………….

Supervisor's Declaration

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

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ABSTRACT

Small and Medium Scale Enterprises offer immense contribution to the economic development of Twifo Hemang Lower Denkyira District and Ghana as a whole. The dominance of small and medium scale enterprises in Twifo Hemang Lower Denkyira District and in Ghana as a whole is as result of minimum capital requirement, easy formation, use of indigenous raw materials, localized operation, less gestation period and most above all profit motives. It is anticipated when proper financial management education or support extended to them, they will stand a better chance of developing their capacities and be able to expand. This will have direct and positive effects on the economy of the communities and thus enhance the livelihood of the people involved. This study was conducted to find out the effects of financial management practice on small and medium scale enterprises in the Twifo Hemang Lower Denkyira District. This was to identify the financial management practices employed by SMEs and broadly examine the effect of the financial management practices on the SMEs. The research was conducted under both qualitative and quantitative research design and a simple random sampling was used to select hundred (100) SMEs from the Twifo Hemang Lower Denkyira District area councils. It was revealed that most SMEs managers do not understand what financial management is and those who do employ financial management techniques use rudimentary approach in managing the finances of the SMEs. The study recommends that financial institutions whose targets are SMEs should offer some level of education and training for SME management.

DEDICATION

I dedicate this work to my dear wife Mrs Paulina AsareMensah and the children; Priscilla, Frances, Precious and Kirk Asare for their prayers and support.

ACKNOWLEDGEMENTS

I wish to take this opportunity to express my sincere gratitude to all those who helped in diverse ways in bringing this work into reality. The first to be mentioned is my supervisor, Mr. Patrick Akorsu who exercise patience and read through this work for me in spite of his busy schedule.

Also many thanks go to my dear mother Madam Yaa Kwakyewa for her financial and spiritual support.

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INTRODUCTION

Background to the Study

Small and medium Enterprises (SMEs) are seen as a driving force for the promotion of an economy (Khan and Jawaid, 2004) and they contribute immensely to the economic development of any country (Abor et al., 2010). In Uganda the SMEs sector contributes 20% to Gross Domestic Product and it provides employment to over 1.5 million people which accounts for 90% of total non farming private sector workers (UIA, 2008). The benefits of the small and medium enterprises in Ghanaian economy cannot be overemphasized. Small and medium enterprises play significant role in employment and income generation, producing import substituting products, mitigating rural-urban drift and mobilization of local resources (Ernst & Young, 2011).

Small and medium scale enterprises (SMEs) are common in many countries. SMEs are normally privately owned companies, partnerships, or sole proprietorships. What constitutes ‘SMEs’, in terms of government support and tax policy, varies by country and by industry, ranging from fewer than 15 employees under the Australian Fair Work Act 2009, 50 employees according to the definition used by the European Union, and fewer than 500 employees to qualify for many U.S. Small Business(Australian Group, 2013).

The Ghana Statistical Services (GSS) in its industrial statistics, considers firms with less than 10 employees as a small scale businesses, and the National Board for Small Scale Industries (NBSSI) also considers a small scale business enterprise as one with not more than nine workers and not exceeding One Thousand Ghana Cedis (GH 1,000.00). As with most economies, small business in Ghana span a wide range of activities both in the formal and informal sectors and comprise business and in retail services, whole sale, construction, manufacturing and food processing (Osei, 1993).

In Ghana, readily available data on SMEs is scarce but statistics from the Registrar General's Department (2011) suggests that 92 per cent of companies registered are micro, small or medium enterprises. SMEs in Ghana have also been noted to provide about 85 per cent of manufacturing employment, contribute about 70 per cent to Ghana's GDP, and therefore have catalytic impacts on economic growth, income and employment (Levy, 1999).

SMEs offer immense contribution to the economic development of Twifo Hemang Lower Denkyira District and Ghana as a whole. The dominance of small and medium scale enterprises in Twifo Hemang Lower Denkyira District and in Ghana as a whole is as result of minimum capital requirement, easy formation, use of indigenous raw materials, localized operation, less gestation period and most above all profit motives.

Specifically typical small businesses include activities such as; soup and detergent making, food processing, tailoring, wood processing, manufacturing, electronic assembly, agro processing, and retail and wholesale trade (Dawson 1993; Osei, 1993; Quartey 2013)

It is anticipated when proper financial management education or support extended to them, they will stand a better chance of developing their capacities and be able to expand. This will have direct and positive effects on the economy of the communities and thus enhance the livelihood of the people involved. The role of SMEs in the national economy cannot be underestimated. These SMEs are being given increasing policy attention in recent years, particularly in third world countries because of growing disappointment with result of development strategies focusing on enterprise with large scale capital intensive and high import industrial plants, the impact of SMEs can be felt in the following ways.

SMEs are increasingly taking the role as primary medium for the creation of the employment and income generation through self-employment, and therefore, have been tools for poverty alleviation. SMEs also provide the economy with continuous supply of ideas, skills and innovation necessary to promote competition and efficient allocation of scare resources. In addition, they have been creating employment for the youth in the urban and rural areas in this intend has reduced rural urban migration offering decongestion in cities and decentralizing the economy.

SMEs in Ghana have been acknowledged to face many obstacles in their development and this is often linked to the absence of a clear vision of the roles in development and the clear lack of a credible policy framework and distinct credible interventions to promote their growth and expansion (Aryeety et al. 1994).

In spite of the enormous contribution made by SMEs to the economy, majority of them collapse shortly after commencement of business (Scherr, 1989, Stevenson 1993). This is attributed to ineffective management system because small businesses are essentially one person's operation which makes such companies sole proprietorship business ventures. This is so because it is the easiest form of business ownership to organize and there is relatively small capital to use for its establishment.

Ineffective financial and capital management practices directly or indirectly affects the performance and the success of SMEs. The quality of management accounting information utilized within the small business sector has a positive relationship with an entity's performance. Financial management involves a wide spectrum of a company's financial decisions (Parkinson and Ogilvie, 1999). It covers areas such as:

Determining the source of finance and dividend policy.

Investment decisions including capital budgeting, assessing capital risk and cost of capital.

Working capital management.

The adoption of sound financial management practices would go a long way to help improve the performance of the SMEs in Twifo Hemang Lower Denkyira District. The group also maintains that effective financial management practices when observed will situate the SMEs to attract the intended credit facility to expand their business and serve the community better.

Statement of the Problem

Twifo Hemang Lower Denkyira District is one of the newly created districts in May 2012 in Central Region of Ghana. For this reason, its communities attract various groups of people within the country and beyond -

students, tourists, among others. These teaming groups of people engage in various transactions in the district. Their presence therefore has created business activities because they form a huge customer base for business organizations. Twifo Hemang Lower Denkyira District, a newly created District Assembly has not been an exception to this refreshing development in emerging oil economy.

Notwithstanding the considerable impact they make, the SMEs in the Twifo Hemang Lower Denkyira District have performed poorly due to their informal nature and inadequate knowledge in financial management practices to maintain their existing business or expand them to be able to deliver quality goods and services to the communities. The inability of the SMEs to ensure sound financial management cripple the expansion and success of these SMEs in the Twifo Hemang Lower Denkyira District. This has directly or indirectly affected their performance and success. Prior research by Holmes and Nicholls (1989), Nayak and Greenfield (1994) and Lybaert (1998) has asserted that the quality of management accounting information utilized within the small business sector has a positive relationship with an entity's performance. Despite the significant contribution of small and medium enterprises to the Ghanaian economy, the potentials of the SMEs have not been exploited fully and this is a concern of all stakeholders in the economy (UNCTAD, 2002). These very concerns are abounding elsewhere (Cookey, 2001). At the height of a number of initiatives undertaken by the government of Ghana aimed at improving and promoting the business environment, reduce the cost of compliance with business regulations, the reforms have not improved the situation as the performance of SMEs in

Ghana is still below the expectation (UIA, 2008; Ernst & Young, 2011) and this possess a threat to the Ghanaian economy since SMEs are great contributors to the GDP. The poor performances of the SMEs are largely due to their financial management to leverage growth.

The danger of business failure due to lack of sound financial management practices is real. However, this project is intended to explore effective financial management practices to improve the performance of these SMEs in Twifo Hemang Lower Denkyira District.

Objectives of the Study

General Objective

The objective of the project is to evaluate the financial management practices of Small and Medium Scale Enterprises performance in Twifo Hemang Lower Denkyira District.

Specific Objectives

In realizing this broad objective, the project seeks to achieve the following specific objectives:

To identify the financial management practices employed by SMEs.

To identify the effects of financial managements practices employed by SMEs.

Research Questions

Based on the stated objectives and probing issues raised in the problem statement the following pertinent questions have been further constructed to guide the study.

What are the financial management practices employed by SMEs?

What are the effects of the financial management practices on the SMEs?

The Scope of the Study

The study will examine the kind of financial management practices used by SMEs in the Twifo Hemang Lower Denkyira District and will be limited to some 100 selected SMEs under manufacturing, trading, services industry within Twifo Hemang Lower Denkyira District. The scope will also be limited to the SMEs which are dominant in the entire district to evaluate the effectiveness of financial management practices of the SMEs in the District.

Significance of the Study

The significance of this study can be seen in the light of the fact that the outcome can be applied in the development of national policy framework as a guide for financial management and performance of the SMEs in the Twifo Hemang Lower District and the entire country as a whole. The findings of the proposed study will serve as a good source of information for managers of the SMEs and all the stakeholders involved in the management of working capital. The findings will also equip both management and staff of the SMEs on how to promote the policies of their institutions. It will also serve as a source of information for students, researchers and lecturers who are studying around similar areas. In this respect the study will improve the understanding on the objective of the study as it applies in the Ghanaian SMEs.

Organization of the Study

The study is organised into five main chapters. Chapter one covers the introduction of the topic which comprises the background, problem statement, objectives of the study, research question, scope of the study, limitations, significance, and the organization of the study. Chapter two deal with review of relevant literature on the phenomenon under study. Chapter three covers the methodology of the study. Chapter four dwells the data analysis and discussions of results, while chapter five gives the summary, conclusions and recommendations of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

This chapter includes the conceptual framework and review of empirical literature pertaining to the topic under study. To help make a fair and informed assessment of the current situation, the available literature can be categorized under the following sub-headings; financial management practice,working capital management and its importance, inventory management, account payable management, account receivable management, cash management, liquidity, solvency/bankruptcy, efficiency and SMEs in Ghana

Financial Management Practice

According to Baker (1991), financial management is the acquisition and utilizing of funds in a way that achieves the firms' desired goals. Sound financial management and good accounting practices are the best ways for business to remain profitable and solvent. How well you manage the finances of your business, its cash flow and profitability is the cornerstone of every successful business operation.

Each year, thousands of potentially successful businesses fail because of poor financial management, Bad practices, inadequate records, unqualified advisers; unethical procedures, tax evasion etc. are just some of potential problems that you might experience.

Bradley (1986), "Financial management is the area of business management, devoted to a judicious use of capital and a careful selection of sources of capital, in order to enable a spending unit to move in the direction of reaching its goals." (Gitman, 1986; p8).

This definition points to the four essential aspects of financial management. Firstly, financial management is a distinct area of business management. That is, financial manager has a key role in overall business management. Secondly, financial management is the prudent or rational use of capital resources proper allocation and utilization of funds. Also, it is the careful selection of the source of capital - determining the debt equity ratio and designing a proper capital structure for the corporate. Lastly, financial management is a Goal achievement, ensuring the achievement of business objectives viz. wealth or profit maximization.

Maness (1988), "Finance is the study of the acquisition and investment of cash for the purpose of enhancing value and wealth". Pinches (1990), also defines Financial management as "acquisition, management and financing of resources for firms by means of money, with due regard for prices in external economic market. Financial Management means the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization.

Financial management is one of several functional areas of management but it is central to the success of any small business (Meredith, 1986). Financial management is the management of finances of a business in order to achieve the financial objectives of the business. McMahon et al. (1993) defines financial management based on mobilizing and using sources of funds: Financial management is concerned with raising the funds needed to finance the enterprise's assets and activities, the allocation of theses scare funds between competing uses, and with ensuring that the funds are used effectively and efficiently in achieving the enterprise's goal. Financial management as used in this study is composed of five (5) constructs and these include; working capital management which is also subdivided into cash management, receivables management and inventory management. Other constructs under financial management include; investment, financing, accounting information systems and financial reporting and analysis.

Ross et al (1999) indicated three kinds of decisions the financial manager of a firm must make in business; these include the financing decision, and decisions involving short-term finance and concerned with the net working capital, investment and financial reporting. Similarly, Ang (1992) also indicated three main financial decisions including the investment decisions, financing decisions and dividend decisions. The strong points of financial management practices in the SME sector have long attracted the attention of researchers. Depending on different objectives, researchers emphasize different aspects of financial management practices. McMahon, Holmes, Hutchinson and Forsaith (1993) and McMahon (1993) summarize their review of financial management practices in Australia, the UK and the USA. In their review the context of financial management practices includes the following areas: accounting information systems, financing decisions, investing decisions. However, these previous researchers though looked into financial management; they did not include other key areas like working capital management which would include accounts receivable, inventory, cash management and accounts payable management.

Working Capital Management

According to Horne and Wachowicz (1998) Working Capital Management is the administration of the firm's current asset and the financing needed to support current asset. They further said that for a sound working capital management, a firm needs to make two fundamental decisions. They are the determination of the optimal level of investment in current assets and the appropriate mix of short –term financing used to support this investment in current assets. Efficient working capital management involves planning and controlling current assets and current liabilities in such a manner that eliminates the risk of inability to meet due short-term obligations and avoids excessive investment in these assets (Eljelly, 2004). Efficient management of working capital, and more recently good credit management practice as being pivotal to the and performance of small of (Wilson,1996).

Previous researchers emphasized specific aspects of working capital management. Burns and Walker (1991) examined working capital management as a whole. In their survey of working capital policy among small manufacturing firms in the USA, the following aspects of working capital were considered: working capital policy, managing working capital components, including cash, receivable, payable and inventory management, and relationships between working capital management practices and profitability without clearly handling other aspects of business efficiency. Cash management practices among SMEs was found to be inadequate in the study done by Grablowsky (1978) and Grablowsky and Lowell (1980) conducted a questionnaire survey concerned with the cash management practices of 66 small enterprises from a number of industries located in and around Norfolk, Virginia. The results showed that 67 percent of respondents replied they did not do forecasting of cash flows. When asked how they determined the level of cash to be held by the business, less than 10 percent of enterprises reported using any type of quantitative technique. Additionally, seventy-one percent of business in the Virginia survey reported that they had no short-term surpluses of cash in their recent history. Only 23 percent had a long-term surplus. Nearly 30 percent of respondents had invested excess cash in earnings securities or accounts. The most common investments were savings accounts, certificates of deposit, treasury bills, repurchase agreements, commercial papers, shares, bonds and other investments.

In the study conducted by Cooley and Pullen (1979), cash management was seen as the process of planning and controlling cash flows. It consisted of three basic components: cash forecasting practices, cash surplus investment practices and cash control practices. Cooley and Pullen (1979) examined cash management practices of 122 small businesses engaged in petroleum marketing and reported that 73 percent of respondents had experienced a cash surplus. In a divergent view to Grablowsky and Rowell's (1978) and Cooley and Pullen's (1979) survey, Murphy's (1979) study indicated that active cash management in small enterprises in the UK was unusual, and that there was little inclination to invest surplus cash on a short-term basis. Regarding accounts receivable management practices, Grablowskyand Lowell (1980) found generally low standards. Approximately 95 percent of businesses that sold on credit tended to sell to anyone who wished to buy. Only 30 percent of respondents subscribed to a regular credit reporting service. Most had no credit checking procedures and guidelines, and only 52 percent enforced a late-payment charge. Thirty-four percent of businesses had no formal procedure for aging accounts receivable. Bad debts averaged 1.75 percent of sales, with a high of 10 percent in some concerns. Murphy (1978) revealed a very high level of awareness and utilization of credit control systems in the UK, even in the smallest businesses.

The previous studies done on inventory management practices, D'Amboise and Gasse (1980) studied the utilization of management techniques in small shoe and plastic manufacturing industries in Canada and found 64 percent of shoe and 65.4 percent of plastic businesses employed formal inventory control systems. While Grablowsky and Rowell (1980) found that most of the respondents had in excess of 30 percent of their capital invested in inventory, the general standard of inventory management was poor. Only six percent of businesses in their survey used a quantitative technique such as economic order quantity for optimizing inventory and 54 percent had systems which were unable to provide information on inventory turnover, reorder points, ordering costs or carrying costs. Related to the methods used to determine inventory level, Grablowsky (1984) compared methods used by a sample of 94 small enterprises with those used by large enterprises and found that large enterprises used methods to determine inventory levels far more than small enterprises.

The working capital meets the short-term financial requirements of a small and medium scale enterprise. It is a trading capital, not retained in the business in a particular form for longer than a year. The money invested changes form and value during the normal course of business activity. The need for maintaining an adequate working capital can hardly be questioned because the flow of funds is very necessary to maintain business. If it becomes weak, the business can hardly prosper and survive. The success of a firm depends ultimately, on its ability to generate cash receipts in excess of disbursements. The cash flow problems of many businesses are exacerbated by poor financial management and in particular the lack of planning cash requirements (Jarvis, 1996).

The management of working capital is important to the financial health of businesses of all sizes (Jarvis et al, 1996). The amounts invested in working capital are often high in proportion to the total assets employed and so it is vital that these amounts are used in an efficient and effective way. A firm can be very profitable, but if this is not translated into cash from operations within the same operating cycle, the firm would need to borrow to support its continued working capital needs. Investments in current assets are inevitable to ensure delivery of goods or services to the ultimate customers and a proper management of same should give the desired impact on either profitability or liquidity. If resources are blocked at the different stage of the supply chain, this will prolong the cash operating cycle. Although this might increase profitability (due to increase sales), it may also adversely affect the profitability if the costs tied up in working capital exceed the benefits of holding more inventory and/or granting more trade credit to customers. Another component of working capital is accounts payable, but it is different in the sense that it does not consume resources; instead it is often used as a short term source of finance. Thus it helps firms to reduce its cash operating cycle, but it has an implicit cost where discount is offered for early settlement of invoices.

Although working capital is the concern of all firms, it is the small firms that should address this issue more seriously. Given their vulnerability to a fluctuation in the level of working capital, they cannot afford to starve of cash. The study undertaken by (Peel, 2000) reveals that small firms tend to have a relatively high proportion of current assets, less liquidity, exhibit volatile cash flows, and a high reliance on short-term debt. Meanwhile the work of Howorth and Westhead (2003), suggest that small companies tend to focus on some areas of working capital management where they can expect to improve marginal returns. For small and growing small and medium scale enterprises, an efficient working capital management is a vital component of success and survival; i.e. both profitability and liquidity (Peel & Wilson, 1996). They further assert that smaller firms should adopt formal working capital management routines in order to reduce the probability of small and medium scale enterprises closure, as well as to enhance performance. The study of Grablowsky (1976) and others have showed a significant relationship between various success measures and the employment of formal working capital policies and procedures. Managing cash flow and cash conversion cycle is a critical component of overall financial management for all firms, especially those who are capital constrained and more reliant on short-term sources of finance (Walker & Petty, 1978; Deakins, 2001).

Similarly given Peel and Wilson (1996), have stressed the efficient management of working capital, and more recently good credit management practice as being pivotal to the performance of the small firm sector. Along the same line, Berry (2002) finds that SMEs have not developed their financial management practices to any great extent and they conclude that owner-managers should be made aware of the importance and benefits that can accrue from improved financial management practices. Narasimhan and Murty (2001) stress on the need for many industries to improve their return on capital employed (ROCE) by focusing on some critical areas such as cost containment, reducing investment in working capital and improving working capital efficiency. The study conducted by De Chazal Du Mee (1998) revealed that 60% enterprises suffer from cash flow problems. The work of Shin and Soenen (1998) and the study of Deloof (2003) have depicted a strong significant relationship between the measures of working capital management and corporate profitability. Their findings suggest that managers can increase profitability by reducing the number of day's accounts receivable and inventories are required. This is particularly important for small growing firms who need to finance increasing amounts of debtors. Teruel and Solano (2005) suggested that managers can create value by reducing their firm's number of days accounts receivable and inventories. Similarly, shortening the cash conversion cycle also improves the firm's profitability.

Also, in the Pakistani context, Nazir and Afza (2009) used panel data to investigate the relationship of working capital management and firm's profitability for the period of 1998-2005. They have extended the work of Rehman (2006) who looked into working average collection period, inventory turnover period; average payment period and cash conversion cycle as working capital management for 94 firms listed at Islamabad Stock Exchange. The authors reported that managers can create value if they adopt a conservative approach towards working capital investment and working capital financing policies in Pakistan. However, if firms adopt aggressive approach to manage the short term liabilities, investors give more value to those firms in stock markets. Similar studies on working capital and profitability includes Smith and Begemann (1997), Howorth&Westhead (2003), Eljelly (2004), Lazaridis and Tryfonidis (2006), Rehman and Nasr (2007), Afza and Nazir (2007, 2008) and Rehman et al. (2010). Van Horne (1977) also established that working capital management is the administration of current assets in the name of cash, marketable securities, receivables, and inventories.

In support Osisioma (1997) described working capital management as the regulation, adjustment, and control of the balance of current assets and current liabilities of a firm such that maturing obligations are met, and the fixed assets are properly serviced. Additionally it) demonstrate that good working capital management must ensure an acceptable relationship between the different components of a firm's working capital so as to make an efficient mix, which will guarantee capital adequacy. Thus, working capital management should ensure availability of desirable quantities management of each component of the working capital. However the question is “What determines the necessary components of a firm’s working capital and how much of such components can be regarded as adequate or desirable?”

The necessary components of an organization’s working capital, basically, depend on the type of business and industry. Cash, debtors, receivables, inventories, marketable securities, and redeemable futures can be recognized as the common components of organization’s working capital. However, the question is to recognize the factors that determine the adequacy of working capital based on growth, size, operating cash flow, etc. The inability to understand the determining factors and measurement of adequate amounts of working capital will leads small and medium scale enterprises to bankruptcy.

The Importance of Working Capital Management

Working capital management is the management of the investment in current assets and the financing of the current assets, and involves setting working capital management policy and carrying out that policy in a business's daily operations (Amir Shah & Sana, 2006; Brigham et al. 1999), to it achieves its goals and objectives, such as shareholder wealth maximization, competitive advantage, and growth (Cooper et al., 1998). As already discussed, the purpose of working capital is to ensure the effective and efficient utilization of the business's investment in fixed assets (Paulo, 1992). More specifically, if performance criteria such as liquidity, solvency/ bankruptcy, efficiency, profitability and Economic Value Added (henceforth EVA) are considered, it will be clearly apparent that the business must hold and manage the different levels of working capital which are appropriate to its performance criteria (Amir Shah & Sana, 2006; Gitman, 1997).

Inventory Management

Inventory management for purchasing, production and marketing purposes, should minimize the total costs of handling, carrying and financing inventory (Raheman et al., 2010; Brigham et al.,1999). The manner in which inventory is managed affects the level and structure of raw materials, work in progress, and finished goods needed to sustain efficient operations and sales (Brigham, et al. 1999,Scherr, 1989). Any changes introduced by management to alter the absolute levels of inventory held or the manner in which it is ordered will have a direct impact on how working capital should be managed (Raheman et al., 2010; Back, 1988).

Within a business, four conflicting management views concerning the appropriate investment in inventory are apparent (Raheman et al., 2010; Kallberg& Parkinson, 1984). The marketing manager desires plenty of finished goods on hand so that no customer is ever turned away or forced to wait because of lack of inventory. Large quantities of both raw materials and work in process are preferred by production managers to ensure employees can concentrate on continuous production runs so that they can spread set up, changeover, spoilage and learning costs over longer production runs. The purchasing agent often prefers to buy in large quantities in order to take advantage of quantity discounts, lower freight costs and other economies of scale. The finance manager has to take the above wants and needs into consideration in conjunctions with the risks and benefits when making any decisions regarding the investment in working capital and the financing of the working capital. It is thus important to draw up these conflicting functional objectives with inventory policy to improve EVA. This can be achieved by adopting appropriate purchasing, production, scheduling and distribution strategies (Madura &Veit, 1988) to speed up the inventory turnover (Scanlan, 1995) without depleting inventory levels to the extent that it might reduce future sales and slowdown production runs (Salawu, 2006; Maness, 1994).

A variety of approaches exist for the management of inventory to reduce the investment in inventory. These include outsourcing inventory (Cheatham, 1989), accurate inventory forecasting (Maness 1994), incentive schemes, budgeting (Gitman, 1997), the ABC system (Oitman, 1997), Economic Order Quantity (Oitman, 1997), MRP(Materials Requirements Planning), MRPII (Manufacturing Resources Planning)(Cheatham 1989), and TIT (Just-in-time) (Gitman, 1997) are some of the approaches that can reduce the inventory turnover, reduce the level of inventory and improve cash flows (Salawu, 2006; Weston & Brigham, 1992). To the extent that inventory management adds value and helps reduce the investment in inventory, progress toward the business's efficiency and profitability will have been made. From the above it is evident that inventory management is closely linked to accounts payable management, as inventory is purchased on credit more often than not.

Accounts Payable Management

Accounts payable, a current liability, refers to the credit, which has been extended to a business by its suppliers. The decision to make use of supplier credit needs should be carefully assessed in terms of alternative sources of finance, discounts (Winkler, 1996), credit limits, public image with respect to its credit rating, transaction costs, administrative costs, information costs, control costs, the value of the relationship with creditors, buying power of the purchasers, the credit terms, stability and general practices of suppliers, and risk factors (Gentry et al., 1990). If the availability and cost of supplier credit are better than other forms and sources of finance, then supplier credit should be used. Once this decision has been taken accounts payable management will probably investigate the extent to which it can stretch accounts payable without jeopardizing its credit status with suppliers (Raheman et al., 2010; Cheatham, 1989).

The motive for stretching accounts payable is to finance the investment in current assets from trade creditors and hence reduce the need for a level of working capital .Creditors may tolerate this practice as long as the business abides by the rules the creditor has established (Payne, 1993). The decision to stretch accounts payable is a function of ethical, legal and economic considerations (Brigham, et al. 1999). If management decides to stretch accounts payable, it must make an attempt to quantify the costs so as to determine the maximum stretching period consistent with value maximization (Kaiser & Young, 2009). If delaying the payments is impossible, because there is the possibility of damaging the firm's future, reputation and credit standing, (Gitman, 1997) then the cash outflows need to be carefully managed (Kaiser & Young, 2009).

Accounts Receivable Management

Accounts receivable management results from credit sales. The purpose of credit sales is to stimulate sales in order to expand market share and if possible enhance production capacity efficiency. If the benefits exceed the costs of credit sales, the business's performance should be enhanced, and should be reflected in key performance criteria such as efficiency, productivity, and return on equity (Mathuva, 2010; Brigham, et al. 1999).

The management of accounts receivable is largely determined by the business's credit policy. The investment in accounts receivable, debtors, as with all investment decisions, must earn a rate of return in excess of the required rate of return. Major risks that arise from granting credit include bad debts and debtor delinquency, because they reduce their turns from the investment in accounts receivable, and if inadequately monitored can impact severely on the business's financial performance (Mathuva, 2010; Gitman, 1997).

Credit policy and collection policy have to be actively managed because they affect the timing of cash inflows, sales, profits and accounts receivable risks (Gitman, 1997). Any changes in credit and collection policy have a direct impact on the average outstanding accounts receivable balance maintained relative to a business's annual sales (Moss and Stine, 1993). Thus a business should take special efforts to monitor both credit granting and credit collection processes (Mathuva, 2010; Chang, et al. 1995).

In the normal course of business credit standards are periodically modified. Key variables that need to be considered when tightening or relaxing credit standards include the impact on sales volume, the investment in account receivable, the cost of recovering monies due, and bad debts. A relaxation of credit standards would be expected to stimulate sales volumes, and vice versa if credit standards are tightened (Gitman, 1997). The granting of more liberal terms has the potential to create a larger and less liquid investment in receivables (Moss & Stine, 1993). Unless sales increase at least proportionally to the increase in receivables, deterioration in liquidity will be reflected in lower receivables turnover and a more extended collection period (Mathuva, 2010; Richards and Laughlin, 1980).

Tightening credit standards or introducing policies to determine which customers receive credit leads to the dilemma which are classified as Type 1 and Type 2 errors. Type 1errors result when credit is issued to a customer that does not repay the debt. Type 2errors occurs when credit is denied a good customer who then buys on credit from a competitor and pays all the bills on schedule. Credit terms specify the debtor's repayment schedule and comprise issues such as the cash discount, the cash discount period, and the credit period. Any changes in these three variables may affect sales, the investment in account receivable, bad debts and profits. For example a decision to increase the cash discount should be evaluated by comparing the profit increases attributable to the added sales, the reduction in accounts receivable investment and the reduction in bad debts to the cost of the discount. On the other hand a decision to decrease the cash discount should be evaluated by comparing the profit decreases attributable to the added sales, the increase in accounts receivable investment and the increase in bad debts to the cost of the discount (Noreen et al., 2009; Gitman, 1997).

Once credit has been granted, and credit sales have been made, accounts receivable has to be collected. The goal of collection management's goal is to ensure that payments are received according to schedule, otherwise a greater investment in accounts receivable will be needed. If receipts from accounts receivable can be speeded up, without prejudicing sales or customer goodwill, less capital will be needed to fund accounts receivable, and less money will be spent on recovery, because of administration ,investigation, collection and bad debt costs (Noreen et al., 2009; Chang, et al. 1995).

In order to achieve satisfactory performance by debtors, several tactics have been suggested. These include adding finance charges for late payment (Cheatham, 1989),providing incentives for early payment, shortening the credit period contractually, or trading only for cash, discounting or factoring accounts receivable to speed up the cash inflows, outsourcing accounts receivable (Herridge,1996), analyzing payment patterns (Mooney and Pittman, 1996), using the Markov Chain Analysis, ad hoc scoring, simple probability, linear discriminate and sequential decision system, monitoring days sales outstanding and aging schedules, using balance fractions, payment proportions and variance analysis (Kallinger & Parkinson, 1984). These tactics need to be implemented carefully otherwise sales volumes could be negatively affected (Noreen et al., 2009; Gitman, 1997).

It is important to note that accounts receivable management and inventory management is closely linked in that account receivable are inventories that have been sold yet have not generated cash inflows

Cash Management

The purpose of cash management is to determine and achieve the appropriate level and structure of cash, and marketable securities, consistent with the nature of the business's operations and objectives (Kaiser & Young, 2009; Gitman, 1997). Cash and marketable securities should be managed so as to achieve a balance between the risk of insufficient liquid or near liquid resources, and the cost of holding excessively high levels of these resources. In order to achieve and maintain this balance, which is subject to continual dynamic processes, both the motive and the appropriate level of cash needs to be established and monitored (Kaur, 2010; Chambers & Lacey, 1994). In order to do this a variety of activities need to be undertaken, because of the integrative nature of cash to the operation of the business. For example, since all the business's assets are paid for with cash and are converted through time back into cash activities by means of improving cash forecasts, synchronizing cash flows, using float, investing excess cash, speeding up cash receipts, and delaying cash payments. This will have a considerable impact on the minimum level of cash necessary to maintain a particular level of liquidity.

If a business improves its forecasts and arranges its affairs so that cash inflows are synchronized with cash outflows, and transaction balances can be reduced, the level of working capital can also be reduced. If working capital is financed from debt, the reduction in the magnitude of working capital will result in lower interest payments which in turn will give rise to improved profit, greater efficiency and productivity, and enhanced return on assets and return on equity (Kaur, 2010; Miller, 1991).

There are several approaches to assist with the management of cash. The cash budget ratio approach, cash budget, cash forecasting, Baumol, Miller Orr, and Stone models are some of the more popular approaches (Kaur, 2010; Brigham, et al. 1999).

The cash budget ratio approach sets a performance target in terms of the ratio of cash to the number of days' worth of payables or, the ratio of cash as a percentage of sales. These target ratios are compared to the industry average. This approach is subject to the well documented limitations of ratio analysis (Kaur, 2010; Gallinger & Healey, 1987).

Cash budgeting or a receipts/disbursements approach focuses on the management of cash flows and balances. This approach is based on the assumption that both the magnitude and the timing of cash receipts and disbursements are known with a high degree of accuracy. By means of sensitivity and scenario analysis, accuracy in the magnitude and timing of the cash flows can be factored into the analysis. The cash budget remains one of the most important tools for the financial manager in maintaining liquidity, and obtaining an indication of the impact of liquidity on profitability (Mathuva, 2010; Gitman, 1997).

Cash forecasting is an estimate and projection of the business's cash needs on a daily, weekly, monthly, and annual basis by considering factors such as sales, fixed assets, inventory requirements, times when payments are made, and collections received. The cash forecast can be combined with the daily, weekly and monthly actual bank balances (Barney, 1991), and forms part of the business's cash control system and cash budget enabling firms to plan for unexpected surpluses or deficits (Kaiser & Young, 2009; Scherr, 1989).

Apart from the above approaches, which may assist with the management of cash, models such as the Baumol, Miller-Orr, and Stone models are available (Kaur, 2010; Baumol, 1952).

The economic order quantity model which was developed to manage the ordering of inventory was modified by Baumolin order to be able to set target cash balance (Baumol, 1952). Baumol's model is based on restrictive assumptions concerning the behaviour of cash flows. Specifically, cash outflows, cash inflows, and the net need for cash occur at a steady and predictable rate. Using cash flows with these restrictive characteristics, the target cash balance is set. The target cash balance minimizes the total cost of holding cash by taking transactions and opportunity costs into account. Unlike Baumol's model which is based on the assumptions of steady and predictable cash flows, the Miller-Orr model makes provision for cash flow volatility (Gitman, 1997).

Whereas the Baumol model is based on assumptions of steady and predictable cash flows, the Miller-Orr model for determining the target cash balance has greater operational content because it assumes that cash flows are subject to volatility, and that the distribution of daily net cash flows follows a trendless random walk. With this model, management sets the lower cash limit, and the model generates the target cash balance, as well as the upper cash limit. The Miller-Orr model has been empirically tested and has been found to perform reasonably well. The assumption that the distribution of net cash flows follows a trendless random walk can be relaxed without dislocating this model. Whereas the Miller-Orr model focuses on setting the target balance, the Stone model is focused on the management of cash balances (Brigham et al. 1999).

The Stone model is a refinement of the Miller-Orr model. When the cash position reaches a predetermined level, which is less than the upper limit and greater than the lower limit, management examines the cash flow forecast to ascertain whether the actual cash flow balance is likely to breach the upper and lower limits. Unless these limits are likely to be breached, no action, by way of purchase or sale of marketable securities is taken. By incorporating expectations about cash flows in the immediate future, say five days, the number of transactions is minimized. The control limits and target level of cash can be set using the Miller-Orr model (Kaiser & Young, 2009; Hill & Sartoris, 1992, Scherr, 1989).

Liquidity

Liquidity is particularly important to shareholders, long-term lenders and creditors, as it provides important information about a particular business's safety margins afforded to creditors and its ability to repay loans in order to make inform decisions. The levels of inventory, credit, accounts payable and cash that form part of the overall cash flow of a business affect the liquidity of the firm (Garcia-Teruel & Martinez-Solano, 2007; Maness, 1994). Meanwhile a business that considers decreasing its levels of cash by carrying too much inventory endangers its liquidity, which if not rectified will lead to bankruptcy. On the other hand increasing levels of cash may result in poor resource utilization and the business may not earn a satisfactory return on assets (Dierks & Patel, 1997). By maintaining an appropriate level of liquidity a business should be in a position to survive down turns and moreover, it may be able to exploit profitable opportunities as they arise (Garcia-Teruel & Martinez-Solano, 2007; Schilling, 1996).

Solvency/Bankruptcy

Illiquidity, unless remedied, will give rise to insolvency and eventually bankruptcy as the business's liabilities exceed its assets (Garcia-Teruel & Martinez-Solano, 2007; Moss & Stine, 1993). Excessive debt exposes the business to potentially large interest costs and the risk of potential bankruptcy (Gitman, 1997).Shareholders, long term lenders and creditors evaluate the level of risk they bear, and require compensation for the risks, which arise from a business's capital structure. The proportion of assets finance by creditors is of particular importance to shareholders, since creditors have a prior claim on the assets in the case of liquidation (Hill et al., 2010; Gitman, 1997). High levels of debt, declining levels of liquidity, and declining levels of profitability coupled with poor cash flow, have been shown by Edward Altman (1983) to be correlated with bankruptcy.

Efficiency

Management should be particularly concerned about determining how effective and efficient a business is in utilizing assets to generate revenues through, generating cash sales and credit sales, and comparing this to the amount invested in net assets, and the average length of time inventory spends in the business before it is sold or used in the production process, and the average time between buying inventory on credit and settling the creditors (Hill et al., 2010; Kamath, 1989).Market share may be constrained unnecessarily, if the levels of accounts receivable are decreased by restrictive credit policies. On the other hand, if the investment in accounts receivable is not appropriately controlled then debtor delinquency, the cost of debt recovery, and bad debts could exceed the benefits from the increase in credit sales(Hill et al., 2010; Brigham et al., 1999). Stock-outs could lead to temporary shutdowns, unnecessary delays in the production process, increasing overhead expenses during periods of idleness, increasing labour costs, which may increase the cost of sales, which in turn may decreases margins. Seasonality, unreliable suppliers, and the possibility of strikes may cause companies to carry larger inventories needed for normal production in the form of safety stocks. This may be wasteful, as it may result in the misuse of facilities, shrinkage, spoilage, theft and obsolescence. Conversely, if there are not sufficient finished goods inventory to meet the market demand the business could lose sales (Brigham et al., 1999).

According to Tully (1994) the businesses that demonstrate the least working capital per dollar of sales can be considered as managing their working capital efficiently and are well-managed businesses.

SMSEs in Ghana

Distinguishing Small scale enterprises have been one of the major areas of concern to many policy makers in their attempt to accelerate the rate of growth in low income countries (Kayanula & Quartey, 2000). Within the Ghanaian context, these enterprises have been recognized as the engine through which the growth objectives of the country can be achieved. Small businesses constitute potential sources of employment, poverty reduction and income.

Data from the Registrar General's Department indicates that 90% of companies registered are micro, small or medium enterprises (SBEs). This target group has been identified as the catalyst for the economic growth of the country as they make major contributions to income and employment (Mensah, 2004). It is recognized that approximately 80% of economic growth of the country comes from the small business sector. Some estimates put the contribution of SBEs to total GDP at about 22 per cent, with the largest contribution coming from those in agriculture, trade and transport (www.oecd.org/dev/aeo).

Due to the growing importance of small businesses in Ghana, there has been a relatively long history of government initiatives to promote and finance their activities. In 1969, the Credit Guarantee Scheme by the Bank of Ghana (B.O.G) was established to assist entrepreneurs in obtaining bank credit. Subsequently in 1970, the Ghana Business Promotion Programme was established with the objective of providing financial and technical assistance to newly established and existing SBEs (www.oecd.org/dev/aeo). Government concern for this business group was intensified in 1990 following the creation of the National Board for Small-Scale Industries (NBSSI) (www.oecd.org/dev/aeo).

Typical of small businesses is that they are dominated by one person, with the owner/manager taking all major decisions (Kayanula & Quartey, 2000). The entrepreneur possesses limited formal education, access to and use of new technologies, market information, and access to credit from the banking sector is severely limited. Again, management skills are weak, thus inhibiting the development of a strategic plan for sustainable growth. There is a general consensus in Ghana that this target group experiences extreme working capital volatility and that lack of technical know-how and ability to acquire skills and modern technology impede growth opportunities (Kayanula & Quartey, 2000). Small business owners are usually reluctant to open their businesses to outsiders. Ghanaian small businesses are badly in need of technical services like accounting, management, marketing, strategy development and the establishment of business linkages.

Within the Ghanaian context, the Association of Ghana Industries (AGI) provided the following size classification of businesses: Micro enterprises-those employing up to 5 employees, Small enterprises-employ between 6 and 29 employees; and Medium enterprises-employ between 30 and 99 employees; (Mensah, 2004).

The World Bank since 1976 described firms with fixed assets (excluding land) less than US$ 250,000 in value as Small Scale Enterprises. Grindle, (1989) also explained Small scale enterprises as firms with less than or equal to 25 permanent members and with fixed assets (excluding land) worth up to US$ 50,000. The USAID in the 1990s emphasized that, Small Scale Enterprises are firms with less than 50 employees and at least half the output is sold (also refer to Mead, 1994).

From the various definitions above, it can be said that there is no unique definition for a small and medium scale enterprises of which SBEs inclusive. Thus, an operational definition is required.

Financial Management Practices and Business Performance of SMEs

The study reviews the relationships between financial management practices and business performance of SMEs. This is done basing on the literature by critically reviewing findings of the previous researchers. Un-fortunately, these findings are not clear because most previous researchers only focus on examining and describing financial management practices and financial characteristics but do not focus on examining the impact of financial management practices on SME profitability. Concerned with the relationships between working capital management practices and SME profitability, Abdul Raheman et al. (2007) provide some relevant findings as follows: Profitable firms reviewed their working capital policies on monthly and quarterly bases; profitable firms used an ROI (return on investment) criterion in looking at changes in the management of certain working capital components; profitable firms always or sometimes take discounts on payables whereas aggressive firms and those with written working capital policies were net users of trade credit.

Some theoretical researchers do indicate the relation-ships between financial management and profitability. Filbeck et al. (2000) indicated the relationship between liquidity and profitability. The study done by Garcia-Teruel (2007) entitled “effects of working capital management on SME profit-ability in Spain” found a significant negative association between working capital management and SME profit-ability. In variance to the findings of Garcia-Terel (2007), the results from the study conducted by Uyar (2009) indicate significant positive correlations between working capital components with firm’s performance in Malaysia.

According to Bhunia (2012) liquidity has a significant impact on profitability. However, such studies in Uganda are scanty and more over, literature available in developed nations see (MacMahon, 1998, Nguyen, 2001, Peel et al., 1996) looked at individual constructs of financial management majorly like working capital management. Moreover, the present study looks at a multiplicative effect of various constructs of financial management on business performance of SMEs. Thus the following hypothesis is set.

Garcia-Teruel and Martinez-Solano (2007) investigated the effects of working capital management on the profit-ability of a sample of small and medium-sized Spanish firms. Their findings revealed that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle may improve the business profitability.

Mathuva (2009) examined the influence of working capital management components on corporate profit-ability by using a sample of 30 firms listed on the Nairobi Stock Exchange (NSE) for the periods 1993 to 2008. The findings from his study revealed that there exists a highly significant negative relationship between the time it takes for firms to collect cash from their customers. The results also revealed that there exists a highly significant positive relationship between the period taken to convert inventories into sales (the inventory conversion period) and profitability, and there exists a highly significant positive relationship between the time it takes the firm to pay its creditors and profitability. The same results are not at variance with Uyar (2009) results which showed statistical significant between working capital and firm performance.

Moreover, Romano et al. (2000) as well as Chittenden et al. (1996) suggest that a complex mix of social, family, cultural and financial factors influence capital structure while Kotey (1999) stresses the entrepreneurial attitudes to risk and debt. This view is shared by Ernst and Young (2011) who found out that majority of SMEs in Uganda use internal sources of finance through family and personal savings. Collis (2002) reported a positive correlation between structure of accounting department and profitability of business. In Uganda, majority of the SMEs owners do not consider book keeping necessary (Lois and Annette, 2005). Whereas there are some SMEs that prepare reports, they keep incomplete records which do not give a clear picture of the financial position and profitability of the firm (Ernst & Young, 2011).

CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter examined the methods used in organizing the research. It looked at the sampling, research instrument, research design, and data analysis.

Research Design

Research design is a "blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings" (Burns & Grove, 2003, p.195). Parahoo (1997, p.142) described a research design as "a plan that describes how, when and where data are to be collected and analysed". Polit et al (2001, p.167) defined a research design as "the researcher's overall for answering the research question or testing the research hypothesis". It is the basic foundational process through which research would be conducted. According to Polit et al (2001, p.178), non-experimental research is used in studies whose purpose is description and where it is unethical to manipulate the independent variable.

This study is a non-experimental research because the respondents were not to be manipulated under any influence or environment. The researcher resorted to a non-experimental research because manipulation of the human variable is not acceptable because of the potential for physical or mental harm to the participants and the fact that human characteristics and views which in this research were observed and collected are inherently not subject to experimental manipulation, such as beliefs, views and opinions. Other reason based for the usage of the non-experimental sampling is the fact that research constraints such as time, personnel and the type of participants, make non-experimental research more feasible and offers non-interference of qualitative studies with the natural behaviour of participants being studied. In this study data was collected without introducing any treatment.

A survey design was used in this study. Easterby-smith, Thorpe and Jackson (2012, p132) postulated that "survey research enables the researcher to gather information from a large sample using standardized questionnaires or interviews". The reason why survey research design was used is that it offers versatility, efficiency, and generalizability, the key importance is its versatility because of array of options and instrument used for the collection of data for the research.

Population

In view of this research, all SMEs in the nation were the actual population that should have been used for this research but the cost and logistical constraint that such a population offers when such a research is to be conducted made the researcher narrowly limit the SMEs in Twifo Hemang Lower Denkyira District, so that the ease, financial and logistical constraint would be overcome.

Sample and Sampling Technique

The researcher sampled 100 SMEs from Twifo Hemang Lower Denkyira District. A simple random sampling method was used in the selection process. Each individual in a sample frame drawn from the population is selected by chance and at random. The random sampling technique was used to select members into the study sample. The random sampling method or procedure was used because this ensured that all the population had equal chance of being selected. It avoids bias in sample taking and selection.

Data Collection

Self-administered questionnaire which was printed on paper and structured interview guide was used as instrument for the data collection for this study. A questionnaire is a survey method that utilizes a standardized set of questions, which allow respondents' answers to be systematically compared and/or contrasted with respect to the research questions of the research. Paper questionnaires are easy to administer confidentially and often confidentiality is necessary to ensure respondents respond honestly. Self-administered questionnaires enable researchers to reach a large number of potential respondents in a variety of locations and thus the researcher saw it useful to use since the organization under which the research was conducted had many departments located at different areas on the work site. The questionnaire was self administered by the researcher and an assistant to ensure a 100% response rate. Data collection was done at the convenience of the respondents but not taken away. The research team stayed, and collected the filled questionnaire from the respondents.

Data Analysis

Data analysis is the systematic process of applying statistical and/or logical techniques to describe and illustrate, condense and recap, and evaluate data. It is also the process of inspecting, cleaning, transforming, and modeling data with the goal of discovering useful information, suggesting conclusions, and to supporting decision-making. Statistical Package for Social Scientists (SPSS), computer software program was used in analyzing the data which was collected from the field. This was used practically because it is scientific software that offers objective analysis of the field data and offers ease of interpretation of data. The qualitative method of data analysis was also employed in the analysis of data collected from the field. The interview was written in words and the response would be used descriptively to explain the implication of the response on the phenomenon under study. The responses gained from the respondents would be grouped under concepts and statements for every question and the concepts or statements would be numbered. Each response from a respondent that fall under their respective numbers will then be given the code (number assigned to it) in the SPSS for the general analysis.

Quality of the Research

The growing interest in using research evidence to inform policy makers and implement recommendations with its emphasis on identifying, synthesizing and applying reputable knowledge to the solution of problems can be seen as another element in this multi-faceted quality agenda in research and policy implementation. Quality research most commonly refers to the scientific process encompassing all aspects of study design; in particular, it pertains to the judgment regarding the match between the methods and questions, selection of subjects, measurement of outcomes, and protection against systematic bias, non-systematic bias, and inferential error (Boaz & Ashby, 2003; Lohr, 2004; Shavelson& Towne, 2002).This research is reliable and valid and the reasons have been given below.

Reliability

Reliability is the degree to which an assessment tool produces stable and consistent results.This attribute of the instrument is actually referred to as stability. If we are dealing with a stable measure, then the results should be similar. A high degree of stability indicates a high degree of reliability, which means the results are repeatable (Golafshani, 2003 p 597-607).

For the researcher to know whether the research is valid, questionnaires were first piloted, questions were scientifically set and the sample were scientifically selected through the probabilistic sampling method. This offers the basis for different researcher to test the result of this study at any moment in time.

Validity

The traditional criteria for validity find their roots in a positivist tradition, and to an extent, positivism has been defined by a systematic theory of validity. Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. In other words, does the research instrument allow you to hit "the bull’s eye" of your research object?

Generally the researcher used triangulation to resolve issues of validity about this research. This is because triangulation raised an important methodological issue in naturalistic and qualitative approaches to evaluation in order to control bias and establishing valid propositions because traditional scientific techniques are incompatible with this alternate epistemology (Mathison, 1988,p. 13).Patton (2001) advocates the use of triangulation by stating “triangulation strengthens a study by combining methods. This can mean using several kinds of methods or data, including using both quantitative and qualitative approaches”.

Ethical and Political Challenges

Ethics refers to moral principles or values that generally govern the conduct of an individual or group. Researchers have responsibility to their profession, clients, and respondents, and must adhere to high ethical standards to ensure that both the function and the information are not brought into disrepute.

In conducting the data collection for the research some ethical and political challenges are anticipated such as confidentiality, anonymity, consent, difficulty in building a comfortable zone for interviews, consent seeking and data abuse. To resolve these issues, I would explain clearly the purpose of the research, assure confidentiality and anonymity on the front page of the questionnaire and seek the consent of the respondent before the questionnaire is given to them and also clearly inform interviewees to be about their right to back out of the research anytime they want, and also explain the purpose of the research to them.

Summary of Chapter

This chapter discussed the method and approach that was used in undertaking the research. The sampling procedure, data analysis and the quality of the research were explained and discussed in this chapter.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter analyses data collected from the field. The data are presented in tables and figures with descriptive explanations of the meaning of variables in the table.

Table 1: Business Background

ITEM	RESPONSE	PERCENTAGE
NATURE OF BUSINESS	Small	70%
	Medium	30%
YEARS IN BUSINESS	1-5 years	13%
	6-10 years	24%
	11-15 years	30%
	16 years and above	33%
FINANCIAL MANAGEMENT UNDERSTANDING	Yes	42%
	No	58%

Source: Field Data (Asare, 2015)

Table 1 illustrates the nature of business of the respondents. From the data collected, it is evident that 70 percent of the respondents operate a small scale business while 30 percent of the respondents operate a medium scale enterprise.

The Table also demonstrates the number of years respondents have operated their businesses. From the data above, most of the businesses have operated for more than ten years. This is supported by data in the table 2; 30 percent and 33 percent which have operated between 11-15 years and above.

Further Table 1 shows that most of the business managers do not understand or know what financial management is. This is because 58 percent of the respondents stated that they do not understand what financial management is.

Having known whether respondents understand what financial management is, the researcher went further to know from respondents the purpose of financial management. From Table 4, 45 percent of the respondents did not respond to this question give a gap as to why they did not answer the research and a gap future researcher must delve into even though 4 respondents out of the 58 respondents who said they do not understand what financial management is, were able to state the purpose of financial management. Data below shows respondents know financial management to ensure effective monitoring of the business and good keeping of financial records of the business to know how the business is operating so as to do effective cost-benefits analysis. See table below;

Table 2: Purpose of Financial Management

Response	**Frequency**	**Percentage**
To ensure effective monitoring	11	11
For record keeping	31	31
Unanswered	58	58
Total	**100**	**100**

Source: Field Data (Asare, 2015)

Furthermore, data was collected on the reasons for preparing financial management. From Table 5 below, 31 percent of the respondents stated that financial management is prepared for tax purposes, 11 percent of the respondents stated that the major reason is to ensure proper management whiles 58 percent chose not to answer showing that they do not understand anything about financial management.

Table 3: Reasons for the Preparation of Financial Statements

Response	**Frequency**	**Percentage**
Tax purposes	45	45
Securing a loan	15	15
Financial ration analysis	1	1
Proper management	21	21
Unanswered	18	18
Total	**100**	**100**

Source: Field Data (Asare, 2015)

In knowing some of the basic financial management practices employed by our respondents, the researcher collected data on some financial management practices. Data collected on the terms of obtaining goods for the business revealed that 57 percent of the respondents obtain goods and raw materials both on credit and cash basis whiles 38 percent of the respondents obtain goods on cash only with only 5 percents, obtaining goods on credit bases only. See Table below;

Table 4: Terms of Obtaining Goods or Raw Materials

Response	Frequency	Percentage
On cash	38	38
On credit basis	5	5
On cash and credit basis	57	57
Total	**100**	**100**

Source: Field Data (Asare, 2015)

Having known how the respondents obtain their goods, data was further collected to know the percentage of sales which are given on credit as credit sales. From the data collected, most of the sales of the respondents are on credit basis because 61 percent and above of the sales percentage are done on credit sales basis. This means that there is limited direct cash transaction with small scale business.

Table 5: Percentage of Sales which Constitute Credit Sales

Response	Frequency	Percentage
1-15 %	22	20
16-30%	61	61
Above 30%	18	18
Total	**100**	**100**

Source: Field Data (Asare, 2015)

In filling the stock of the businesses used under this study, 88 percent of the respondents stated that they buy when stock is needed whiles the remaining 12 percent said they buy and store due to future price increases and the depreciating value of the local currency. This means that even though small scale business buy only when they need stock, they at some level of decision making, consider inflation and exchange rate in their purchases. See table below.

Table 6: Stock Holding Motive

Response	Frequency	Percentage
Buy when needed	88	88
Buy and store	12	12
Total	**100**	**100**

Source: Field Data (Asare, 2015)

The research also collected data on the percentage of stock that represent minimum re-order level. From the collected 45 percent of the respondent stated that 11-15 percent of their stock present minimum re-order whiles 1-10 percent minimum re-order level is practiced by 38 percent of the respondents. This means that majority of small and medium scale enterprises practice a minimum re-order level of not more than 15 percent. See Table below;

Table 7: Percentage of Stock that Represents Minimum Re-Orders Level

Response	Frequency	Percentage
1-10%	38	38
11-15%	45	45
21-30	15	15
Above 30%	2	2
Total	**100**	**100**

Source: Field Data (Asare, 2015)

Data in Table 10 below represents the alternative source of supply for the respondents. From the table below, 81 percent said that they have alternative source of supply whiles 7 of the respondents representing 7 percent did not answer. This data indicates that small and medium scale enterprises do not depend on only one source of supply.

Table 8: Presence of Alternative Source of Supply

Response	Frequency	Percentage
Yes	81	81
No	12	12
Unanswered	7	7
Total	**100**	**100**

Source: Field Data (Asare, 2015)

In knowing how small and medium scale enterprises raise working capital for their business, three main areas of funding was stated; loans, savings and credit purchases. 30 percent stated that they fund their business with borrowing from friends, 24 percents through loans from financial institutions, 38 percent through personal savings and 8 percent through credit purchases.

Table 9: Means of Raising Working Capital

Response	Frequency	Percentage
Borrowing from friends	30	30
Financial institutions	24	24
Personal savings	38	38
Credit purchase	8	8
Total	**100**	**100**

Source: Field Data (Asare, 2015)

Table 13 below shows that even though majority of respondents do not understand what financial management is, majority of them understand what cash conversion cycle is. 56 percent of the respondents stated that they understand what cash conversion cycle is whiles only 13 percent stated they do not understand what cash conversion cycle is.

Understanding of Cash Conversion

Respondents were asked to state their knowledge of cash conversion cycle of their business. The researcher asked whether the

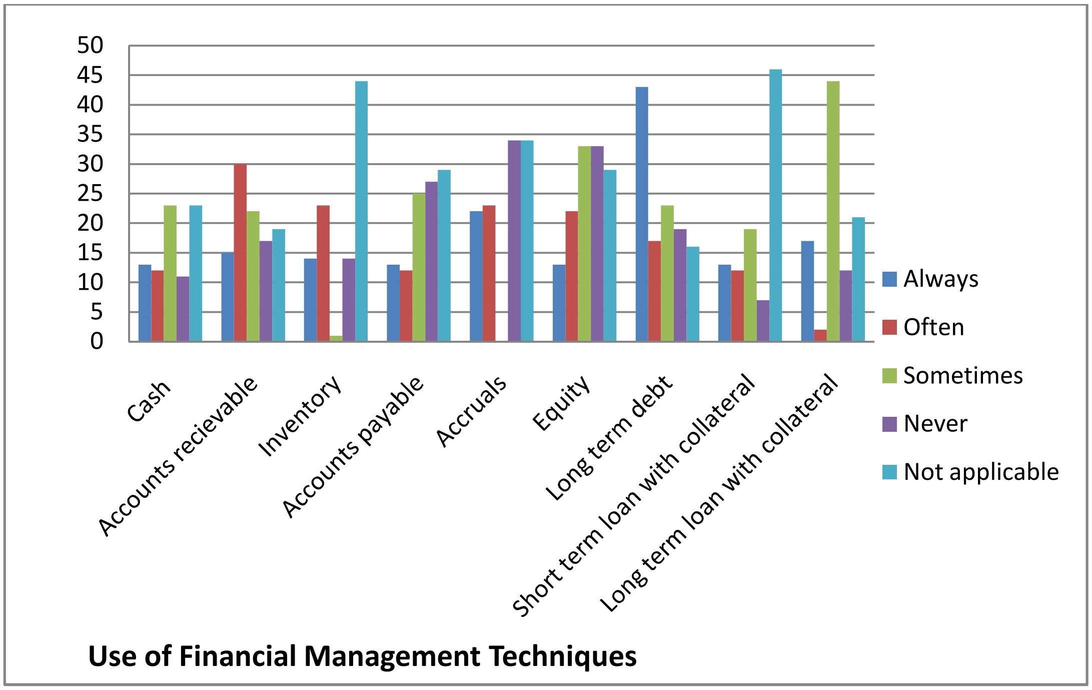
Table 10: Understanding of Cash Conversion Cycle

Response	Frequency	Percentage
Yes	56	56
No	13	13
Unanswered	31	31
Total	**100**	**100**

Source: Field Data (Asare, 2015)

Use of Financial Management

The researcher went further to collect data on how often some financial management techniques are used by the SMEs under the study. This was to know the frequency of the usage and why a particular technique is used often or not. See table below;



Source: Field Data (Asare, 2015)

Discussion

From the data collected and the findings from the field, there seems to exist a wide gap between relevant financial management and it's fulfillment to managerial needs. This means that the lack of complete financial management means management do not serve the strategic objectives of the firm as far as it finances is concerned. It can be stated that the lack of management financial knowledge can affect the long term productivity and growth of the businesses of SMEs since management do what they think is right but not through a proper laid down procedures and intent. Thus a rapid change in the business environment coupled by the product diversification due to new market can be to a disadvantage to SMEs.

An emphasis therefore should be laid on the significance of keeping proper books of accounts because it can enable small businesses to have accurate information on which to base decisions. SMEs project purchase and sales, determine break-even point, and make a wide range of other financial analyses based on financial information available on records. The study contends that, lack of proper accounting records can see the closure of some businesses, and thus makes it a significant issue for business success. Other studies assert that the high incidence of failure among SMEs could be attributed to the poor financial systems used by these enterprises of which this study confirms. Those studies recount that since management financial systems play a key role in determining business growth and profitability, there is a need to evaluate the financial systems used by SMEs. This is important because for optimum business growth, SMEs must make use of a system of accounting which will enable them determine the volume of sales, profits (or loss), assets and liabilities at any given time.

This means that many SMEs record their transactions randomly without adherence to any established systems of accounting; hence making it difficult in keeping track of the cash flows in the enterprises. Knowledge of cash-flows according is very important because cash-flows are inseparable parts of the business operations of firms and decision making processes in small and medium scale enterprises are more sophisticated than anticipated but they lacked effective accounting information and control system to support their decisions.

It can also be deduced from the findings that there is some evidence to suggest that small firms are aware of the importance of management financial information but in spite of this awareness, most owners of small and medium scale enterprises are not too keen to use standard financial systems to run the day-to-day activities of their enterprises. The high rate of failure of small and medium scale enterprises has generally been traced to poor management financial systems employed by these enterprises therefore, the quality of management financial knowledge and information utilized within the SME has a positive relationship with an entity's performance and survival. Similarly, there is the need for financial information for small and medium business units due to the volatility normally associated with their situation such as unstable cash and profit positions, and reliance on short-term borrowing.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

Summary

This project work on the topic 'The effect of financial management practice on small and medium scale enterprises in the Twifo Hemang Lower Denkyira District' was conducted to identify the factors that facilitate or inhibits the acquisition of assistance from financial institution and to broadly assess the effect of micro financial institutions on small and medium scale enterprises' performance. The research was conducted under both qualitative and quantitative research design and a simple random sampling was used to select 100 SMEs from the Twifo Hemang Lower Denkyira District area councils.

From the study, the following findings were made;

1. Most SMEs managers do not understand what financial management is.
2. Managers who employ management financial techniques use rudimentary approach in managing the finances of the SMEs.
3. The long term implication of lack of proper financial management techniques is that, SMEs are not able to strengthen their financial positions and thus their growth is impeded.
4. SMEs cannot obtain loan and other credit facilities from financial institutions.

Conclusion

From the literature reviewed and the study conducted on the field, it can be concluded that SMEs management employ little of virtually no financial management on the business and this has a negative effect on the progress and growth of the small and medium scale enterprises. Furthermore it become difficult for these SMEs to access loan and other credit facilities to expand their business and this means that SME easily phase out especially when competition arises from other bigger enterprises. Though some level of financial management is employed, the lack of awareness of it and the knowledge to apply proper financial has made SMEs financial monitoring difficult which force them to operate at breakeven points always.

Recommendation

From the findings of this research, it would be recommended that;

1. Financial institutions whose targets are SMEs should offer some level of education and training for SME management.
2. SME association should offer networking opportunities for the members so that members can learn from each other. These associations should also develop long term training workshops for their members to build their financial standings and management.

3. Future researcher should research into the socio-economic background of SME management to ascertain their educational expertise to ascertain why most management do not employ proper financial management.

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APPENDIX

QUESTIONNAIRE

Dear Sir/Madam,

I am MBA student of the University of Cape Coast carrying out a research on the effect of financial management practices on the Small and Medium scale Enterprises within Twifo Hemang Lower Denkyira District. I will be grateful if you could take some time off your busy schedule to respond to this questionnaire. Any information provided will be confidential and for academic purposes only. Thank you.

Section A: Demographic Data

Please kindly indicate with a tick and comment where necessary.

1. Sex:

   (a) Male [ ]

   (b) Female [ ]

2. Level of Education: (a)

   (a) JSS/MSLC [ ]

   (b) SSSCE/WASSCE [ ]

   (c) Diploma [ ]

   (b) Professional [ ]

   (d) degree [ ]

(f) Others (please specify)

……………………………………………………………

3. period of service

(a) 5 years or less [ ]

(b) 6 – 10 years [ ]

(c) 11 – 15 years [ ]

(d) 16 years and above [ ]

5. Nature of business

(a) Small [ ]

(b) Medium [ ]

6. Type of business industry……………………………………………………

7. Category of staff ……………………………………………………………

8. What type of product or service does your business engages in?

..................................……………………………………………………………

…………………………………………………………………………………………

9. How long have you been in the business? ……………………………………

…………………………………………………………………………………………

Section B: Information on Financial management practices

10. Do you understand financial management practice? Yes [ ] No [ ]

If yes explain ……………………………………………………………………

11. Do you think the financial management practice is important? Yes [ ] No[ ]

12. What is the main purpose of financial management practice in your business? ……………………………………………………………………….

……………………………………………………………………………………….

13. What do you think are the major sources of financing working capital in business? …...…………………………………………………………………

………………………………………………………………………………

14. Do you prepare annual financial statements? Yes [ ] No [ ]

15. What are your reasons for preparing financial statements?

a. Tax purpose [ ] b. securing a loan [ ] c. financial ratio analysis [ ]

d. for management [ ] e. Other (Specify) ………………………………………

16. On what terms do you obtain your goods or raw materials?

a. On cash basis [ ] b. on credit basis [ ] c. both [ ]

17. What percentage of your sales constitutes credit sales?

1 – 15 % [ ] 16 – 30 % [ ] above 30 % [ ]

18. How many days does it take for customers to pay their debts?

1 – 15 days [ ] 16 – 30 days [ ] 31 – 50 days [ ] 51 days and above [ ]

19. What is your stock holding motive?

a. Buy when needed [ ] b. buy and store [ ] c. Other Specify

20. Do you know the cost of holding stocks? Yes [ ] No [ ]

If yes, what percentage of your total expenses represents holding cost?

1 – 5% [ ] 6 – 10% [ ] 11 – 15% [ ] above 15% [ ]

21. What percentage of stock represents your minimum re – order level?

1 - 10% [ ] 11 – 15 % [ ] 21 – 30% [ ] above 30% [ ]

22. What percentage of stock represents your maximum re – order level?

51 – 60% [ ] 61 – 70% [ ] 71 – 80% [ ] above 80% [ ]

23. Do you have other alternative source of supply? Yes [ ] No [ ]

24. What is your inventory turnover period?

1 – 15 days [ ] 16 – 30 days [ ] over 30 days [ ]

25. Which of the following means do you employ in raising working capital?

a. Borrowing from friends [ ] b. Financial institutions [ ] c. Personal saving []

d. Credit purchases [ ] e. Other (Specify)…………………………………….

26. Do you offer discount for prompt payment? Yes [ ] No [ ]

27. How long does it take your business to pay creditors?

1 – 15 days [ ] 16 – 30 days [ ] above 30 days [ ]

28. Do you understand what a cash conversion cycle is? Yes [ ] No [ ]

29. Does your business have a target level for any of the following items?

		Always	**Often**	**Sometimes**	**Never**	**Not applicable**
a)	Cash					
b)	Accounts receivable					
c)	Inventory					
d)	Prepayments					
e)	Accounts payable					
f)	Accruals					
g)	Equity					
h)	Long term debt					

i)	Short term loan with collateral					
j)	Long term loan with collateral					

With respect to question 29, if a target level is determined, please answer the appropriate sections of questions 30 and 31.

30. Who within your organization determines the target level of the following items? [If necessary tick more than one box]

		A Friend	**Accountant**	**Family Member**	**Chief Executive Officer/ Owner**
a)	Cash				
b)	Accounts receivable				
c)	Inventory				
d)	Prepayments				
e)	Accounts payable				
f)	Accruals				
g)	Equity				
h)	Long term debt				
i)	Short term loan with collateral				
j)	Long term loan with collateral				

31. Please state who is responsible for managing the target levels within your firm of the following items? [If necessary tick more than one box]

		A Friend	**Accountant**	**Family Member**	**Chief Executive Officer/ Owner**
a)	Cash				
b)	Accounts receivable				
c)	Inventory				
d)	Prepayments				
e)	Accounts payable				
f)	Accruals				
g)	Equity				
h)	Long term debt				
i)	Short term loan with collateral				
j)	Long term loan with collateral				

32. How often does your company revise the target levels for the following items?

		Daily	**Weekly**	**Monthly**	**Quarterly**	**Half yearly**	**Annually**	**Never**
a)	Cash							
b)	Accounts							

	receivable							
c)	Inventory							
d)	Prepayments							
e)	Accounts payable							
f)	Accruals							
g)	Equity							
h)	Long term debt							
i)	Short term loan with collateral							
j)	Long term loan with collateral							

33.Who within your firm revises the target level for the following items? [If necessary tick more than one block]

		A friend	**Accountant**	**Family Member**	**Chief Executive Officer/ Owner**
a)	Cash				

b)	Accounts receivable				
c)	Inventory				
d)	Prepayments				
e)	Accounts payable				
f)	Accruals				
g)	Equity				
h)	Long term debt				
i)	Short term loan with collateral				
j)	Long term loan with collateral				

34. Indicate your level of agreement with the following statements.

[Where Strongly Agree = SA: Agree = A: Neutral = N: Disagree = D: and Strongly Disagree = SD]

		SA 1	A 2	N 3	D 4	SD 5
a)	In your firm inventory is best managed independently of accounts receivable.					
b)	In your firm inventory is best managed					

	independently of accounts payable.					
c)	It is possible to successfully operate your organization with zero or negative working capital.					
d)	It is possible to rely only on current liabilities to finance the total investment in current assets in your business.					
e)	It is possible to successfully operate your business where the current liabilities are greater than the investment in current assets.					
f)	It is possible to rely only on long term liabilities to finance the total investment in current assets in your firm.					
g)	The total investment in current assets of your firm is financed from long term sources of finance, short term sources of finance and equity.					