UNIVERSITY OF CAPE COAST

WORKING CAPITAL MANAGEMENT PRACTICES OF SMALL AND MEDIUM ENTERPRISES IN THE SEKONDI-TAKORADI METROPOLIS

COMFORT ADOKOBIRE

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BY

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DECLARATION

Candidate's Declaration

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

Signature: ……………………………... Date: ………………

Name: ……………………………………………………….

Supervisor's Declaration

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

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

Name: ……………………………………………………….

ABSTRACT

This study was conducted on selected businesses in the Sekondi-Takoradi Metropolis of the Western Region of Ghana with the purpose of assessing the practices small and medium enterprises (SMEs) in the metropolis adopt in managing their working capital through the use of the descriptive research design. A sample of 300 respondents was chosen using the stratified random and purposive sampling techniques from a population consisting of entrepreneurs and their employees responsible for managing their firms' working capitals. The resulting data which was gathered using interview guide was analysed using statistical techniques such as means, percentages, Chi-square and reliability analyses. It was found out that most of the businesses were not engaged in strong cash management practices though most of them were operating bank accounts. Their inventory management practices, were found to be fairly good with most coming short at preparing budgets for their different types of inventory. The study recommends that owners and managers of the SMEs should ensure that there is regular and frequent physical stocktaking of inventories; introduce and improve the ICT systems of their businesses to enhance their operations; train their staff on ICT devices and the latest industrial technologies; and formulate, keep and implement well-documented polices on providing services or selling products on credit. It is recommended that, owners and managers of the SMEs should ensure that physical stocktaking of inventories are conducted regularly and frequently, while introducing information and communication technology systems of their businesses.

KEY WORDS

Account receivables

Cash management

Inventories management

Small and medium enterprises (SMEs)

Working capital

Working capital management

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DEDICATION

To my father Dr. Okumi Andoh and my brother Stephen Abiley.

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CHAPTER ONE

INTRODUCTION

Background of the Study

Small and medium enterprises (SMEs) operating in Ghana form an estimated 92% of the entire number of business establishments in the country and accounts for about 70% of the country's gross domestic product (GDP) (Frimpong, 2013). According to the Organization for Economic Co-operation and Development (OECD), small and medium enterprises (SMEs) are considered as non-subsidiary, independent firms which employ less than a given number of employees which varies from country to country (Organization for Economic Co-operation and Development (OECD), 2005).This number is usually quoted at two hundred (200). However, it is highly dependent on the economic status of the country within which the business operates. The definition indicates that SMEs do not have subsidiaries but can have a branch or more.

As a result of SMEs immense contribution to the development of economies, their potential to be a pillar of local economic development cannot be underestimated. Padachi (2006) noted that SMEs provide the needed drive to propel the economic progress of both developing and developed countries. In this stead, studies have found that SMEs significantly contribute to the development of the local economies by creating jobs (Jain & Chen, 2013; Snober, 2014). This is partly due to the fact that the SME sector of the various economies, unlike large firms or businesses which have easy access to advanced technologies and machineries, require much labour and, as such, has a lower capital cost (Small Enterprise Development Agency, 2012). Moreover, according to Gatt (2015), aside creating jobs, SMEs through their development of new and unsaturated sectors of a country's economy can significantly be used as a driving force to diversify a traditional-oriented economy.

Very often, the rural areas of many countries are neglected in developmental projects and, in such cases, the establishment of SMEs by individuals within such areas improves and enhances access to infrastructure and as such, stimulate economic activities and improve the standard of living of the local folks (Katua, 2014). However, SMEs encounter lots of challenges such as access to funds and properly manage their working capital in their day-to-day operations which sometimes result in their collapse as according to the summary report of the Integrated Business Establishment Survey from the Ghana Statistical Service (GSS), the percentage of SMEs decreased to about 84% in 2015 (GSS, 2016).

In view of this, proper management of their working capital would invariably ensure the success of SMEs as it is primarily concerned with the day-to-day operations of a business rather than long-term business decisions. Jagongo & Makori (2013) explained that managing working capital concerns the ability to effectively and efficiently control a business' current assets and liabilities in a way that maximizes returns on the business' assets and minimizes expenditures for its liabilities.

According to Sunday (2011), working capital which is also known as business capital is the percentage or proportion of a business' overall capital which is employed in their short-term or day-to-day operations. This means that the working capital is used to secure short-term expenses such as raw materials, general administrative expenses, maintenance and repair expenses, tax, labor, energy and insurance expenses that have been incurred since the establishment of a business up to its current state of operations. Working capital of a business consists of several components such as cash, accounts receivable, inventory, accounts payable and short-term debt (Charitou, Lois & Christoforou, 2016) which are dependent on factors such as the nature of the industry, the level of operation and its associated efficiency, inventory policies, book debt policies and technology (Padachi, 2006).

The importance of working capital in a business' success cannot be downplayed as it enables a business to decrease the risk of liquidity, function at its optimum capacity, and continue production uninterruptedly as well as not being in difficult situations financially (Jose, Lancaster & Stevens, 1996). Again, Nazir and Afza (2009) opined that working capital management exists mainly by the objective of ensuring that an optimal balance among each of these components is maintained in order to ensure that a balance between efficiency and risk is achieved. As such, a business' working capital should properly be managed to closely keep tabs on the relationship between its current assets and liabilities to avoid problems of insolvency and bankruptcy (Muya & Gathogo, 2016).

Studies have shown that after attaining a compromise between the associated returns and risks on adopting a certain type of capital management policy, a business' management of its working capital can be through the adoption of an aggressive, conservative or a combination of both policies (Nazir & Afza, 2009; Mwangi, Muathe & Kosimbei, 2014). According to Charitou, et al. (2016), the adoption of a conservative working capital management policy yields low returns as it entails making low risk choices.

However, a business would have to adopt the high risk aggressive working capital management policy if it desires to make high returns on its working capital investment and financing strategies. Depending on its overall objective, a business can utilize a combination of the aggressive and conservative capital management strategies to maintain an adequate level of working capital. In view of this, small and medium enterprises can attain optimal management of their working capital through a compromise between their profitability and liquidity objectives. This calls for an examination and review of the working capital management practices of SMEs if they are to achieve success and continue influencing the economy positively.

Statement of the Problem

Small and medium enterprises have been contributing immensely to the development of many nations, especially developing ones: they contribute more than two-thirds to Ghana's gross domestic product. Notwithstanding their enormous contribution to the national economy, most of the SMEs are hugely challenged in various ways. Thus, their success or survival is made very critical whilst the other hand making their failure eminent as studies found out that a great majority of SMEs (95%, to be specific) are not able to survive the harsh business environment for more than four (4) years after they have been established (Fatoki & Garwe, 2010; Wallace, 2013).

Though there are several reasons for this alarming rate of failure among SMEs, many studies have found that the principal reason for SMEs' not being able to move beyond the initial stages of business is as a result of their lack of knowledge to manage their working capital effectively (Atrill, 2006; Padachi, 2006; Sunday, 2011; Uwonda, Okello & Okello, 2013). According to Atrill (2006) and Bowen, Morara & Mureithi (2009), debt collection has been found to be a daunting task among SMEs because most of them do not have credit control departments as well as proper laid-down procedures for managing their working capitals. As a result, they tend to direct insufficient attention towards the management of their working capital which eventually culminates into their failure (Sunday, 2011).

In trying to find solution to this problem, many studies have been conducted on the working capital management of SMEs in countries such as Spain, Pakistan, Turkey, Rwanda, Nigeria and many more around the globe (Atrill, 2006; Padachi, 2006; Bowen, Morara & Mureithi, 2009; Sunday, 2011; Uwonda, Okello & Okello, 2013; Snober, 2014; Karadag, 2015; Konak & Güner, 2016; Masocha & Dzomonda, 2016; García-Teruel & Martínez-Solano, 2007). There is, however, little literature works on the management of SMEs' working capital. The few works that are available were mostly conducted on SMEs within the Ashanti region (Agyei-Mensah, 2012; Tuffour, Appiagyei, Gyasi, Anokye & Asante (2012). The only literature on the management of working capital of SMEs within the Sekondi-Takoradi Metropolis sought to identify ways and means, which will establish and sustain the vibrancy of Ghanaian SMEs (Adjei, 2012). Adjei (2012) revealed that, SMEs in the metropolis susceptible to to failure and therefore not sustainable given many factors, including working capital management. Therefore, this study is being conducted to find out how effective the practices of SMEs within the Sekondi-Takoradi metropolis are, regarding the management of their working capital.

Purpose of the Study

The study sought to assess the practices that small and medium enterprises operating within the Sekondi-Takoradi Metropolitan Assembly (STMA) employ in managing their working capitals.

Research Objectives

The specific objectives of the study are to:

i. Assess the effectiveness of the practices that SMEs use in managing their working capital

ii. Identify challenges that SMEs encounter in the management of their working capital

iii. Find out ways of reducing or overcoming SMEs' challenges in managing their working capital

Research Questions

The objectives of the study were guided by the following questions:

i. Are the practices that SMEs in STMA use in managing their working capitals effective?

ii. What are the challenges that SMEs encounter in the management of their working capitals?

iii. How can these challenges encountered by SMEs in managing their working capitals be reduced or overcome?

Significance of the study

As every research is meant to solve or meet some needs, this study intended to have a holistic look at the practices that SMEs within the STMA metropolis employ in the management of their funds or working capitals. In view of this, it is anticipated that the study would assess the state of the SMEs within the metropolis in regards to the management of their working capitals and, thereby, provide stakeholders an insight into how the SMEs manage their funds. Through this the governing bodies, authorities and other stakeholders who are responsible for managing the affairs of SMEs would be able to provide them with the needed support such as training if it is found out that their working capital management practices are not effective.

Small and medium enterprises in Ghana contribute substantially towards the country's overall economic growth. Thus, through the identification of the challenges that the SMEs operating within the metropolis encounter by the result of the study, the government as well as other stakeholders such as Non-governmental organisations and investors would be able to identify areas to target their supports on so as to help SMEs grow to contribute more significantly to the national economy.

The results of the study on how the challenges being encountered by the SMEs could be solved would prove to be a very good source of information for the managers and owners of SMEs in their attempts to overcome such or similar challenges. The final piece of work would also add to the existing body of knowledge on working capital management as well as serve as a springboard for future studies into capital management.

Delimitations

Due to several challenges such as time and funds that the study encountered, the study was conducted on small and medium enterprises within a few areas or suburbs of the Sekondi-Takoradi metropolis. Though there are many SMEs within the metropolis, the study was conducted on those situated in towns such as Sekondi, Essikado, Ketan, Kojokrom, Nkroful, Ntankorful, Effia, Effia-Kuma, Effia-Kuma Newsite, Anaji, Tanokrom, Lagos Town, Kwesimintsim, Takoradi, Beach Road and Chapel Hill because of their proximity to the researcher and the research assistants. The study concentrate on any particular sector of the national economy. It included small and medium enterprises operating within the various sectors of the economy. Thus, the study included, and not limited to, establishments such as dressmaking, welding, block-making, photocopying, grocery or “provision”, phone recharge cards and phone repairs shops.

Ideally, institutions such as the National Board for Small Scale Industries (NBSSI), Ministry of Trade and Industries (MoTI), Association of Small Scale Industries (ASSI), Chamber of Commerce (CoC), Association of Ghana Industries (AGI), Banks and other institutions that support the operations of SMEs should have been included. However, this study concentrated mainly on the business owners and their employees responsible for the management of the businesses’ working capital. This was to eliminate the tendency of the other stakeholders influencing the direction of the study’s outcome.

Limitations

As with every research survey, the study was anticipated to encounter some challenges in its successful conduction. The study encountered some difficulty in getting some sensitive documented information such as financial statements from some of the SMEs due to some old-fashioned perceptions that Ghanaians generally have on giving out financial data. The study also anticipates encountered a great number of respondents who were not willing to partake of the study. These were found to be due to the fact that as a result of lack of education, most Ghanaians tend to think that giving out financial information about their businesses or themselves opens them up for increase tax payment and robbery.

Furthermore, the study was conducted along active coursework. Thus, the study was affected by time. The researcher had to combine job responsibilities, academic work and the study's field work and work on them concurrently. In view of this, there was not ample time allocated towards the conduct of the study. Also, as the study is not a sponsored one but its expenses being financed by the researcher, there was not enough funds to print out more questionnaires as well as increase the sample size to increase the sample's representativeness.

Despite all these challenges, it was ensured that the study was successfully conducted as much as possible. In view of this, an introductory letter spelling out the purpose and essence of the study was acquired from the University of Cape Coast and attached a copy to each of the questionnaires. Also, the researcher and the research assistants personally filled the questionnaires for the respondents as they provided their responses to the various questions on the questionnaires.

Definition of terms

The terms or keywords which were used in relation to the study are explained as follows:

Working capital: The working capital of a company or firm defined as the proportion of that company's total capital which is employed in its short term operations (Sunday, 2011).

Working capital management: Jagongo and Makori (2013) define working capital management as the ability to effectively and efficiently control the current assets and liabilities of a company or firm in a manner that provides it with maximum return on its assets and minimises payments for its liabilities.

Small and medium enterprises (SMEs): These are non-subsidiary, independent firms which employ less than a given number of employees which varies from country to country (OECD, 2005).

Organisation of the study

The study has been written under five (5) chapters. Chapter one deals with the background of the study; the statement of the problem; the purpose of the study; the objectives of the study; the research questions; the significance of the study; the scope or delimitation of the study and the limitation of the study. Chapter two coversliteraturereview the works of other researchers relating to the topic.

Chapter three looked at the research methods through which the study was conducted to achieve its objectives. In this regard, the means by which the data for the study was gathered and analyzed. Chapter four presents the analysis of the data as well as the discussions of the results. Chapter Five presents the summary, conclusion and recommendations emanating from the study.

CHAPTER TWO

LITERATURE REVIEW

Introduction

The chapter reviews literature related to the study such as the concept of small and medium enterprises, roles of SMEs in the country's economy, working capital management practices, the challenges encountered in managing businesses' working capital and means of effectively managing working capital.

Overview of small and medium enterprises

Small and medium enterprises are considered as the backbone of many economies both development and developing ones. The Organization for Economic Co-operation and Development (2005) defines SMEs as independent non-subsidiary business entities which engage a certain maximum number of employees (usually, 200) that depends on the country in which they operate. As such, SMEs do not have subsidiaries but can have a branch or more. According to the Ghana Statistical Service, businesses are considered micro, small, medium and large when they employ between 1-5, 6-30 and 31-100 people respectively (GSS, 2016). Thus, SMEs are the type of businesses that employ not more than one hundred (100) workers.

The small and medium enterprises industry, as noted by Ovia (2001) remains one of the most active forces and agents of economic growth and development of both developed and developing nations. Due to the relatively small amount of capital required to establish or start micro or small businesses, SMEs form the greater number of businesses all over the world. Though, there has been some reduction in their numbers from about 92% as a result of many collapsing along the line, records available at the Ghana Statistical Service indicates that SMEs in Ghana still consist of about 84% of the nation's entire number of businesses (Frimpong, 2013; GSS, 2016). In South Africa, they form close to 91% of the country's formal business entities (Abor & Quartey, 2010).

Contribution of SMEs to the Ghanaian economy

The contribution of SMEs to the development of economies cannot be downplayed as they play very significant roles in propelling the development of local economic activities. In terms of a country's gross domestic products (GDP), SMEs have been found to be very pertinent as they constitute at least 60% of that of the USA (Ovia, 2001) and between 52 and 57 percent of South Africa's (Abor & Quartey, 2010). In Ghana, the contribution of SMEs towards the country's GDP stands at a staggering 70% (Frimpong, 2013). Small and medium enterprises have also been found by several studies to substantially contribute to local economic development by creating jobs (Jain & Chen, 2013; Snober, 2014). In this instance, 53.7% of gross investment intangible goods in Turkey are supplied by the SME sector. Similarly, Abor and Quartey (2010) indicated that employment by SMEs constitutes 61% of employment in South Africa.

In Ghana, SMEs are responsible for employing approximately 2.5 million workers, representing about 74.63% of Ghana's workforce (GSS, 2015). This is partly due to the fact that unlike large firms or businesses which have easy access to advanced technologies and machineries, the SMEs require much labour and relatively small amount start-up capital and, as such, has a lower capital cost. Moreover, Gatt (2015) held the opinion that aside creating jobs, SMEs – through their development of new and unsaturated sectors in a country's economy – can significantly be used as a force to drive the agenda of diversity in a traditional-oriented economy.

In propelling the developmental agenda of developing countries, the focus is usually on the urban and semi-urban areas at the expense of the rural ones. As such, the rural areas of such countries tend to lose their attraction as a result of lack of infrastructure. In these instances, the establishment of SMEs by individuals within such areas improves and enhances access to infrastructures and as such, stimulates economic activities and improves the standard of living of the local folks (Katua, 2014).

Challenges facing small and medium enterprises (SMEs) in Ghana

Despite their overwhelming contributions to the economy and the development of many economies, small and medium enterprises encounter numerous challenges which most often threaten their long-term sustainability. Small and medium enterprises face challenges which include: access to finance, trade liberalization, relationship with stakeholders and access to training, among others.

Access to finance

Funds to take care of activities are one of the most essential components of every economic activity. This is because having access to adequate funds provides start-up capital for the business as well as funds to meet operational costs (Adjei, 2012). However, access to funds has remained a very dominant constraint to Ghanaian small and medium enterprises. As such, to meet their financial needs, Beck, Demirgue-Kunt and Levin (2003) observed that most of Ghanaian entrepreneurs in the informal sector have been relying on their savings or borrowing from their friends and relatives as their main source of financing for their operations due to the fact that credit facilities from the banks such as the commercial banks, investment banks, savings and credit banks and rural banks which were set up purposely to offer financial assistance to domestic entrepreneurs is very limited.

However, accessing funds from these sources come with high interest rates, collateral requirements and cumbersome documentation demands and as such deter many SME (especially, micro) entrepreneurs such as shoemakers, dressmakers as well as hairdressers from assessing such funds (Adjei, 2012).

Relationships with stakeholders

Furthermore, whereas large businesses are expected to observe recognised standardized practices of corporate governance where stakeholders such as boards of directors, management executives, auditors and others are required to conform to transparent norms, the small and medium enterprises which are usually managed by their owners tend to reflect their owners' personalities (Tuffour et al., 2012). As such, most of the relationships that exist between the businesses and their stakeholders mostly reflect personal relationships to a higher extent than those existing in larger business where relationships are kept at the formal level.

Access to training

As stated by King and McGrath (2002), the educational level of employees is one of the factors that have a positive impact on the growth of businesses, irrespective of their origin or where they are situated. As such, businesses with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt to the constant changing business environment. It is worthy to note that most SMEs usually lack the requisite business and marketing skills necessary to enable them put together and implement viable business propositions (Adjei, 2012). Moreover, as a result of lacking the right business acumen as well as skills and training, most of SME entrepreneurs are unable to detect whether or not they are making erroneous business decisions which in the long-run affect the smooth operations of their businesses.

Overview of Working Capital

Commonly known as business capital, the working capital of a business is considered as the money that a business requires for its daily operations (Tuffour et al., 2012). Sunday (2011) asserted that a business' working capital is the percentage or proportion of a business' overall capital which is employed in their short-term or day-to-day operations. As such, in a manufacturing setting, the working capital can be referred to as the money needed to finance the conversion of raw materials or stocks into finished goods which are sold for a company's revenue. A business' working capital consists of several components such as cash, accounts receivable, inventory, accounts payable and short-term debt (Charitou, *et al.*, 2016).

This indicates that it is the working capital which is used to secure a business' short-term expenses such as raw materials, general administrative expenses, maintenance and repair expenses, tax, labor, energy and insurance expenses since its inception. As such, working capitals need to be managed properly by SMEs to avoid the need to borrow funds as a result of mismanagement. Furthermore, even those companies with surplus cash reserve need to properly manage their working capital in a manner to ensure that the surplus can be channeled into other investments to generate returns for the business (Tuffour et al., 2012). Downplaying the significance of working capital in a business' will be detrimental to such a business' success because it enables the business to decrease its liquidity risk and function at its optimum capacity continually (Jose, Lancaster & Stevens, 1996).

Working Capital Management Practices

Singh and Singh (2013) opined that working capital management is a very essential activity for all businesses, irrespective of their size. Thus, ensuring that a company has sufficient capital for its operations whenever and wherever it is needed has become a challenge that financial managers persistently encounter. This is due to the fact that when businesses have sufficient working to finance their operations as well as cushion economic downturns, they can confidently focus on their operations whilst, on the other hand, those with inadequate levels of working capital must always asses and make alterations to their business plans or operations. According to Perera and Wickremasinghe (2010), when managing working capital practices on cash management, inventory management and debt management should be highly considered.

Cash Management

Cash is the total amount of currency a business has in its hand and the funds deposited in its bank accounts and it is the medium of exchange and store of value that allows businesses to carry out their various operations (Pieterson, 2012). Mclaney (2000), in his view, saw cash to represent more than an element of a business' working capital as it links both short and long-term financial decisions with each another as well as investment decisions in both fixed assets and working capital. Pieterson further observed that cash and marketable securities form the bulk of a business' liquidity. Thus, managing cash is one of the major roles in any business.

In the current global and electronic age where finance managers try everything to get all their profit from their cash management strategies, managing cash has become quite sophisticated (Block & Hirt 1992). This is because holding either too much or too little cash comes with its associated cost (Atrill, 2006). According to Pieterson (2012), businesses keep cash to enable them reduce the duration between the time of spending and the time of receiving sale proceeds. In other words, businesses keep a minimum amount of cash to facilitate the payments required for their day-to-day operations as well as to cater for unexpected expenses and unforeseen opportunities. Also a business' cash resources tend to be used up when there is increase in sales. This is because growth in sales requires that inventories and accounts receivable are also increased.

In view of the above, there is a need for careful planning and monitoring of cash flows over time (Atrill, 2006). In doing so, Srinivasan (1999) posits that cash management strategy should aiming at helping the business to prepare cash budget/forecast, manage cash flows through organized collection and proper disbursement management, optimum cash level and invest surplus cash in short-term securities should be pursued. These assertions support that of Chittenden, Hall and Hutchinson (1996) who found in their study that 63% of the respondents prepared cash budget with more than half of the SMEs regularly holding cash surpluses. Similarly, Perera and Wickremasinghe (2010) opined that businesses should use verbal or written requests for reducing negative float through techniques such as stretching of credit, cash discount, regional banking and depository transfer cheque should be employed to reduce cash float and improve the internal flow of funds.

Management of inventory

It is a common practice among SMEs as well as many large businesses to lay the responsibility of managing inventory solely on the shoulders of their stores manager, production manager or general manager neglecting the finance manager (Perera & Wickremasinghe, 2010). However, the finance manager plays a very significant role in inventory management. This widespread perception of the finance manager having nothing to do with inventory was noted by Atrill (2006) who argued that the lack of SMEs' skills in managing their finances often tends to hinder efficient and effective stock management. This is due to the fact that business owners as well as managers are often unaware that keeping either too much or too little amount of stock comes at a cost. The associated costs of inventories comprise of all the cost of purchase, cost of conversion and cost incurred in bringing the inventories to their present location and condition.

In brief, Chase, Jacob and Aquilino (2004) defined inventory as the stock of any item or resource used in an organisation. Ballou (2004), in a bid to elaborate on the definition, defined inventory as a stockpile of raw materials, supplies, components, work in process and finished goods that appear at various points of a business' production and logistics channel's. Inventories are valuable assets in and every business environment as they constitute a substantial portion of the total current assets.

Inventory consist of a variety of items meant to be purchased, used and sold in an ordinary course of business and covers the entire range of items from material to finished products. According to Joshi (2000), inventories constitutes raw materials (items of basic inputs yet to be processed into final products), work-in-process (items that are not raw material but yet to be developed into final products or items that are at various stages of semi-finished levels) and finished goods (final products awaiting sale). Work-in-process also includes all the items at the various stages of the production processes. For an efficient and effective inventory management, there need to be a functional inventory system.

According to Pycraft et al (2010), an inventory system is the set of policies and controls that monitor levels of inventory and determine the levels to be maintained, time for replenishing stocks and the quantity. In view of this, Atrill (2006) posited that as an effective stock management system, there should be reliable sales forecasts, or budgets, available for stock ordering purposes. Perera and Wickremasinghe (2010) posited that inventory management decisions should not be made in an ad-hoc manner and assuch techniques such as economic order quantity (EOQ), material requirements planning (MRP) and industry guidelines should be employed to plan, purchase and replace inventory. Similarly, in a survey conducted by Chittenden et al (1996) on SMEs in UK, it was found that 75% of the respondents prepare sales budgets. However, a good number of the SMEs were found to rely on manual methods of stock control, with majority of them not using stock optimisation techniques.

Finally, with the primary objective of holding inventories at the lowest costs possible, Joshi (2000) opined that management of businesses have to find a compromise between the different components of cost when taking decisions on inventory. Such costs include the costs of holding and supplying inventory, and that emanating from insufficient inventories.

Management of account receivables

In today's competitive and hash business environment, no business can survive without selling or providing its products or services on credit so selling on credit are inevitable necessity. According to Joshi (2000), accounts receivables consist of the credit a business gives its customers when selling goods or services. This could come as either trade credit (credit given to other business) or consumer credit (credit extended to a business' consumers). Machiraju (2005) also opined that account receivables result from providing goods or services on credit. Thus, account receivables represent claims against a business' customers to receive money, goods or services whose value is dependent on the amount of sales on credit as well as the policy for collecting such credits in the future. Selling on credit is a form of investment for the businesses providing the products or services in question. Businesses engaged in providing services or products on credit to their customers basically do so to increase their sales to attract new customers as well as retain their old ones and, thereby, considerably increase their profit (Pieterson, 2012).

Managing credit sales is very essential to the survival of businesses. Thus, Perera and Wickremasinghe (2010) admonish that providing services or products to customers on credit should be done by considering their debtors' or customers' capacity, capital, condition and character. Payment behaviours of customers can be monitored through techniques such as ageing schedule, collection period and collection experience. Pieterson (2012) also observed that financial managers should consider major controllable variables such as credit standards and terms as well as collection effort when determining an optimal credit extension policy. Chirwa and Odhiambo (2016) added that businesses should manage their creditors as well and thus, elaborated that management practices such as creditors polices and standards, repayment period, discount offered, credit history and credit limits should be considered. The effectiveness of such credit policies significantly influences the total performance of business.

Credit standards – which enables businesses to exercise some degree of control over the time a customer takes to repay credit obligation, given that it is repaid and the probability of a customer failing to repay his or her credit – are the criteria a business uses to scrutinize credit customers to determine which of them qualifies for credit sales and how much (Pieterson, 2012). As such, Pieterson suggested that in setting credit standards, businesses should compare the expected cost for extending credit and the expected profit that would be forgone if there is no credit.

Joshi (2000) opined that a tight account receivables' collection policy comes with high collection costs but ensures fewer instances of bad debt and vice versa. However, Joshi (2000) cautioned that tight or strict credit policies may antagonize customers and instigate a switch to other competitors so businesses should have a rational for collecting their receivables through methods such as sending notice or letters to customers to inform them of the past-due status of their credit and request payment; telephoning and/or visiting the customers in a bid to get their monies; employing the services of a collection agency and taking legal action against defaulting customers.

Furthermore, Pieterson (2012) opined that the various elements of working capital are interrelated, and can be seen as parts of a cycle. Thus, working capital cycle (also known as operating cycle) reflects the net time interval between actual cash expenditure on a business' purchase of production resources and the ultimate recovery of cash receipts from product sales (Richards & Laughlin, 1980). Khan and Jain (2007) also defined the operating cycle as the continuing flow of cash to suppliers, to inventory, to accounts receivable and back into cash.

Challenges in managing working capital

Ensuring that a business has a proper system instituted for its financial management plays a very important role in the survival and growth of such a business. Unfortunately, small and medium enterprises are faced with numerous challenges that drive them to their extinction. Agyei-Mensah (2012) identified that SMEs face challenges to developing robust financial management systems such as lack of qualified internal accounting staff, lack of adequate training as well as lack of value from engaged account staffs. In addition to these challenges, Bart (2016) in a study to assess the challenges in managing working capital in the manufacturing and distribution industry identified that businesses encounter challenges such as long supply-chain lead times; inaccurate sales, inventory, and operations planning; delinquent receivables, inability to transfer transaction data to business analytics; aging or obsolete inventory; expeditious payables; lack of visibility or transparency to working capital performance; and poor enterprise resource planning (ERP) system drivers or adherence in the management of their working capital.

Small and medium enterprises often lack the resources to effectively manage their receivables (Atrill, 2006). Most of the SMEs worldwide operate without credit control department and these results in the lack of both expertise and the information needed to make accurate judgement on the terms of sales and so on. Bart (2016) posited that poor credit management or diligence is also one of the challenges facing small and medium enterprises. This is because, as Atrill (2006) noted, SMEs gravely lack proper debt procedures. SMEs tend to lack in engaging in prompt invoicing practices as well as sending out regular statements to their credit customers and these practices tend to boost the risks of late payment and subsequently defaulting debts. In an attempt to increase sales to facilitate business growth, SMEs tend to be overly willing to extend credit to some of their customers who may have poor credit risk standing. This risk can occur in all sizes of businesses, however, it is particularly conspicuous among SMEs who tends to have strong desires for growth.

Another major challenge in managing the working capital of SMEs is unfavorable contracts (Atrill, 2006; Bart, 2016). On this issue, Bart added that this challenge comes in two-fold. That is, unfavorable contracts from SMEs' suppliers and unfavorable contracts from their customers. In view of this, small and medium enterprises often find themselves in weak positions at the negotiating table when negotiating credit terms with their customers – especially their large business customers (Atrill, 2006). Moreover, when a large customer defaults or breaches the terms of credits, the SME supplier feel reluctant or careful to push for payment in order not to lose future sales from that customer. Thus, small and medium enterprises tend to have a much greater proportion of overdue debts than large businesses.

Finally, Atrill (2006) asserted that small and medium enterprises are usually confronted by intense competition from large businesses. Similar to the effect those unfavorable contractual agreements have on SMEs, the lack of a solid financial base of many SMEs the power struggle among competitors is shifted towards the large businesses. This gives such businesses undue advantage in production, marketing and general operations, among others.

Ways of managing working capital effectively

As a business' working capital is central to its overall operations, there is the need for its proper administration or management to avoid the business becoming bankrupt or insolvent. In view of this, Bart (2016) was of the opinion that the long supply-chain lead times that are experienced can be overcome if vendors can deliver supplies using the just-in-time (JIT) approach or assume ownership in strategic areas (and the working capital burden of inventory) until production begins. Also, Adjei (2012) opined that businesses can effectively manage their working capital through the provision of training to all stakeholders of the businesses. It is therefore, imperative that all stakeholders such as the government and its agencies, advocacy groups, non-governmental organizations (NGOs), civil society groups as well as international development partners should channel their efforts into promoting training for front-runners of SMEs at all levels and in all facets of their endeavours.

Furthermore, Bart (2016) posited that the issue of inaccurate sales, inventory, and operations planning (SIOP) results from lack of update on sales plans, production schedules, inventory volumes, research and development project pipelines, and customer lead times. Thus, adopting a straightforward approaches to implement a better SIOP (i.e. updating such operation parameters) can deliver more efficient operations, supply chains, and product development.

Finally, on delinquent receivables, Bart (2016) noted that lax invoicing and receivables policies create cash flow problems. Thus, improving the management practices will in turn take off the strangle on working capital's performance. Frequent use of any of these methods can improve management of working capital. Frequent use of all four can result in world-class working capital management but only 5 percent of companies have achieved that status.

CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter deals with the discussion on the methodologies employed in conducting the study. The chapter consists of the research design, study area, population andsampling procedure as well as how the sample size was estimated. The datacollection instruments as well as how the data was collected, processed and analysed are also presented under this chapter.

Research Design

According to Trochim (2006), a study's research design can be considered as the structure of that study or research. This is because the research design acts as a "bond" that binds all the parts in a research project together. Van Wyk (2012) added that the research design articulates the kind of data that is required, the kind of methods to be used to collect and analyse the resulting data, and how all of these parts ensure that the research questions for the study are answered. In view of this, with practical and other constraints of the study taking into consideration, it is pertinent to ensure that the data and the methods involved in gathering them as well as the manner in which they are arranged in the study are effective in providing answers to the study's research questions.

Hence, the study was conducted using the descriptive research design. The descriptive research design was employed for the study because according to Labaree (2009), it is a type of research design that seeks to observe, document or describe aspects of a situation as they are naturally found and may help to uncover new facts and meaning. Polit and Beck (2003) added that descriptive research designs entail the collection of a large amount of data which provides an account or description of individuals, groups or situations leading to important recommendations in practice and can, as such, provide a knowledge base that can act as a spring board for other types of quantitative research methods.

Study Area

The study was conducted within Sekondi-Takoradi Metropolis; the twin city of Ghana's Western Region and the regional capital. Administratively, Sekondi is the capital of the Sekondi-Takoradi Metropolis which occupies the south-eastern part of Western Region and shares boundaries with the Ahanta West Municipal Assembly and the Shama district. The study area is located on the west coast of Ghana and it is about 200km west of Accra. The Western Region has 13 districts, municipal and metropolis of which the Sekondi-Takoradi Metropolis is the most developed. The metropolis is an industrial and commercial centre with a population of 559,548 covering an area of 23,921km^2 and is the fourth largest metropolis in Ghana (GSS, 2014). However, the people in the rural areas of the metropolis are predominantly engaged in fishing and farming as their occupations.

The metropolis which is now referred to as "the oil city" has become highly cosmopolitan as a result of the oil find in the country in 2007 has caused an influx of both foreign and domestic workers from various places into the metropolis (Planitz & Kuzu, 2015). Despite the creation of more jobs, Planitz and Kuzu (2015) added that the oil activities within the metropolis has caused it to be faced with high unemployment rate; increase in social vices such as prostitution, drug abuse, crime; increase in inflation and prices of products and services such as food, leisure and accommodation, as well as increased health implications from excessive pollution.

Population

The target population for the study constituted all the stakeholders within the SME industry whilst the population for the study was made up of staff from bodies such as the Ministry of Trade and Industry (MOTI), Chamber of Commerce (COC), National Board for Small Scale Industries (NBSSI), Sekondi-Takoradi Metropolitan Assembly (STMA), Association of Ghana Industries (AGI), Association of Small Scale Industries (ASSI), Banks and Credit Unions, and Microfinance and Small Loan Centre (MASLOC) as well as entrepreneurs and their employees from the 16,693 SMEs within the metropolis (GSS, 2016). The accessible population for the study (the portion of the population which the researcher had access to) comprised entrepreneurs and their respective employees – irrespective of their age, gender, educational background, type of industry as well as the number of years they have been in business – since they are responsible for managing the working capitals for their firms' operations with only a few of coming from the other stakeholders. This is to ensure that the characteristics of the accessible population adequately reflect those of the target population.

Sampling Procedure

The sampling procedure looks at the process involved in selecting the actual respondents who to be engaged in the study. As such, it is very essential to consider the kind of sampling technique to be used as well as the characteristics of the population when one is selecting a sample to be studied (Adjei, 2012). The study employed a combination of stratified random and purposive sampling techniques. The stratified sampling technique were used to select the proportion of the respondents to be included into the study based on the type of SME they work for. This is as result of the fact that the stratified sampling technique divides the population into two or more relevant and significant strata (or categories) based on one or a number of attributes ensuring that the sample as representative as possible of the population (Saunders, Lewis & Thornhill, 2009). On the other hand, the purposive sampling technique was used to select the actual members of the sample since it allows researchers to use their judgement to select cases that are particularly informative and would best enable them to answer their research question(s) and to meet their specified objectives (Neuman, 2005).

Finally, the sample for the study was mostly made up of business owners or entrepreneurs, their assistants, accounts personnel, or any person who had the responsibility for managing the business.

Estimation of Sample Size

Using a 90% confidence interval, 10% margin of error and the corresponding proportions of the type of SME in the metropolis, a sample size of three hundred (300) respondents was selected by adopting the formula for calculating the sample size (Kothari, 2004).

$$n = \frac{Z^2\pi[1-\pi]N}{d^2[N-1]+Z^2\pi[1-\pi]}$$

Where Z = Z-value of the confidence interval

π = the proportion of the characteristic of interest in the population

d = the margin of error

N = the population size

Table 1: Details of Determining Sample Size

Type (Stratum)	Number	Proportion for SME type	People engaged	Sample selected
Medium	337	0.02	18,574	21
Small	2,130	0.13	24,533	141
Micro	14,226	0.85	29,189	138
Total	16,693	1.00	72,296	300

Source: Field Survey, (2018)

Data Collection Instruments

The data for the study was obtained mainly through the means of a self-administered questionnaire. The rationale behind the use of the questionnaire is because they provide a relatively cheap, quick and efficient way of obtaining large amounts of information from a large amount of people. This is owing to the fact that the researcher can be absent when the questionnaires are being completed as well as its ability to relieve respondents of undue pressure in completing the questionnaire survey. As such, they are useful for gathering data from large population sizes when interviews would be impractical or inappropriate. In ensuring that the responses represent the views of the respondents, the questionnaire was made up of both open-ended and close-ended questions. Whereas the open-ended questions are questions which give respondents the total freedom to express themselves, the close-ended questions restricted respondents in their response by providing a set of predetermined or coded answers for them to choose from.

A bit of freedom is, however, provided with this type of questions by occasionally asking respondents to specify or add their own response where applicable. Just as any other data collection technique, the use of interview guide is not without problems. Low response rates and other errors such as biases in responding to some seemingly sensitive questions have been identified to be associated with questionnaire surveys. As such, the researcher trained a few people (five research assistants) to help administer the interview guide in order to obtain high rate of response.

Reliability of data collection instrument

The Cronbach's Alpha test was used in assessing the reliability of the variables used to measure the management of the working capital of the businesses operating in the Sekondi-Takoradi metropolis. Several Cronbach's Alpha values were calculated to assess the suitability of the variables used to measure the cash, inventory and account receivables management practices of the businesses as well as the challenges they encounter in managing their working capital. The results of the reliability analyses are presented in Table 2.

Table 2: Reliability Test of Working Capital Management Practices Variables

Practices	Cronbach's Alpha	N of Items
Cash management	0.905	6
Inventory management	0.783	6
Account receivables	0.691	11
Challenges	0.827	8

Source: Field Survey, (2018)

Table 2 shows that six (6) variables each were used in measuring the cash and inventory management practices. With Cronbach's Alpha values of 0.905 and 0.783, Table 1 indicates that the variables which were used to respectively solicit information on the cash and inventory management practices of the various businesses are appropriate. The eleven (11) and eight

(8) variables used to measure the businesses' management practices of their account receivables and challenges respectively were found to be suitable. This is because they recorded Cronbach's Alpha values of 0.691 and 0.827 for account receivables management practices and challenges respectively.

Data Collection Procedures

In collecting the data for the study, five (5) research assistants were recruited and trained on the rationale behind the items on the interview guide and how to properly conduct the interviews. To enhance the introduction of the researcher as well as the research assistants to the respondents, an introductory letter was acquired from the School of Business (University of Cape Coast) and copied for distribution.

The designed interview guide was administered to the respondents. In order to improve the response rate, the researcher as well as the research assistants personally administered the guide instead of handing them over to untrained personnel to conduct. Respondents who were not too busy gave us time and each interview lasted approximately twenty (20) minutes whilst those who, due to their busy schedules (such as business owners and their deputies) but were willing to participate were attended to at a later date.

To ensure that the study is reliable, a pilot study was conducted in October, 2017 using a medium, a small and a micro enterprise each from the Sekondi, Takoradi, Essikado and Effia-Kwesimintsim sub-metros to test the appropriateness of the interview guide and respondents understanding of the questions. With regards to pilot studies, Saunders, *et al.* (2009) indicated that a pilot study is normally carried out for a questionnaire with the aim of ensuring that respondents have no problems responding to the items and also to ensure the reliability and validity of the items in it. The actual study was, however, conducted in January, 2018 – about three months after the conduct of the pilot study of the questionnaires.

Data Processing and Analysis

The data that was obtained from the survey was screened and edited for writing errors as well as incomplete entries. In view of this, the questionnaires which were not filled at all or had as much as about 80% of their questions not responded to or answered were discarded from the data set to improve the quality of the data. Furthermore, the numbers that were assigned to the various responses under the closed ended questions were retained and used as codes to facilitate the data entry processes. On the other hand, the responses obtained from the open-ended questions were grouped based on their meanings and coded for data entry. Thereafter, the resulting data which was free from errors and improved in quality was then analysed based on the objectives of the study using descriptive statistical tools such as frequencies, percentages and averages as well as Chi-square and reliability analyses through the help of the version 23 of the SPSS (Statistical Package for Service Solutions) computer software.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents the results and discussion of the study. In view of these, it is worth noting that the study sought to assess the practices that small and medium scale enterprises (SMEs) in the Sekondi-Takoradi Metropolitan Assembly (STMA) adopt in managing their working capitals.

Demographics

This section looks at the demographic characteristics of the respondents as well as some background information on the businesses. The demographic characteristics of the respondents include their gender, age, education and position in the business. On the other hand, the characteristics of the businesses under discussion are the number of years the business has operated and the type of industry the businesses operate under. The results of the analyses on the characteristics of both respondents and businesses are presented in Tables 3 and 4.

Table 3: Demographic Characteristics of Respondents

Characteristic	Frequency	Percentage
Gender		
Male	132	44.0
Female	168	56.0
Total	300	100.0
Age (in years)		
20 – 29	39	13.0
30 - 39	129	43.0
40 – 49	78	26.0
50 - 59	42	14.0
60 and over	12	4.0
Total	300	100.0
Educational background		
None	27	9.0
Basic/MSLC	42	14.0
Secondary/Voc./Tech.	147	49.0
Tertiary	84	28.0
Total	300	100.0
Position		
Owner	186	62.0
Manager	66	22.0
Employee	48	16.0
Total	300	100.0

Source: Field Survey, (2018)

It can be observed from Table 3 that 56% of the respondents were females whilst 44% of them were males. This gives the indication that women have been engaging in the activities of small and medium scale enterprises in the Sekondi-Takoradi metropolis than their male counterparts. Table 3 again shows that most of the respondents for the study were between the ages of 30 and 49 years. Again, a little over one-tenth of them indicated that they were between the ages of 20 and 29 years. A few of the respondents (4%), on the other hand, reported that they were either 60 years old or more. This indicates that most of the people in the Sekondi-Takoradi metropolis who were engaged in SME activities were mostly the youth.

It can also be observed from Table 3 that close to half of the respondents (49%) for the study had completed their second-cycle education (i.e., secondary, vocational and technical education), with a few of them (9%) having not attained any form of formal education at all. A little over a quarter of them (28%) also mentioned that they had completed their tertiary education. This implies over three-thirds of the respondents had completed, at least, second cycle education and so were appreciably educated. Considering the position of the respondents, Table 3 shows that about 62% of the respondents were the owners of the businesses whilst, on the other hand, a little over one-tenth of them (16%) were employees of the businesses. About one out every five of the respondents (22%) reported that they were managers in charge of handling the operations of the businesses. This is good for the study as it indicates that the data for the study was obtained from the right source.

The results of the analyses on the background characteristics of the businesses are presented in Table 4.

Table 4: Background Characteristics of the Businesses

Characteristic	Frequency	Percentage
Duration of operation (in years)		
Less than 1	18	6.0
1 - 5	123	41.0
6 - 10.	87	29.0
More than 10	72	24.0
Total	300	100.0
Industry of business		
Trading	189	63.0
Manufacturing	21	7.0
Agro-processing	3	1.0
Construction	15	5.0
Services	72	24.0
Total	300	100.0

Source: Field Survey, (2018)

Table 4 shows that 41% of the respondents reported that their businesses have been operating for between 1 and 5 years whilst a few of them (6%) reported that theirs have been in operation for less than 12 months. A little over a quarter of the respondents said their establishments have been operating for between 6 and 10 years (29%) whilst close a quarter of them said theirs have been in existence for more than 10 years (24%), This indicates that most of the SME businesses in the Sekondi-Takoradi metropolis has been operating for more than 5 years. Deducing from Table 4, about three out of every five of the respondents (63%) engaged in SME activities within the jurisdiction of the Sekondi-Takoradi Metropolitan Assembly was trading. Close to a quarter of them (24%) were engaged in providing services as SME businesses. The rest of the respondents reported that they were engaged in SME activities within the manufacturing (7%), construction (5%) and agro-processing (1%) industries of the economy. This indicates that most of the SME businesses within the Sekondi-Takoradi metropolis are generally engaged in trading and providing services.

Effectiveness of Working Capitals Management Practices

Based on the first objective, the study sought to assess the effectiveness of the practices that the SMEs used in managing their working capitals. To achieve this, the study looked at the cash, account receivables and inventory management practices that the businesses have adopted for their operations. The results from the various statistical analyses are presented in Tables 5 to 14 as well as Figures 1 to 7.

Cash management practices

The cash management practices of the businesses operating within the Sekondi-Takoradi Metropolis is considered under this section. In view of this, the section specifically deals with the constituents of the businesses' cash system; management of surplus cash; the use of cheque for payments; and the types of bank accounts operated by SMEs. The finding collaborated with Atrill (2006), who says that lack of skills in cash management practices hinder the sustainability of businesses

Constituents of cash system

The respondents were asked to indicate the constituents of cash in their businesses' operations and the outcome of the resulting analysis presented in

Table 5. However, it should be noted that Table 5 is a multiple response table (that is, a table that is generated from questions which allow respondents to give more than a single answer), so the percentages and totals are not calculated in the same manner ("Percentage" is based on the total number of responses whilst "Percentage of Respondents" is based the total number respondents to that question).

Table 5: The Constitution of Cash System in SME Businesses

Constituents of cash	Responses		Percentage of Respondents
	Frequency	Percentage	
Notes and coins	285	74.8	95.0
Money in bank account	81	21.3	27.0
Treasury bills	15	3.9	5.0
Total	381	100.0	127.0

Source: Field Survey, (2018)

It can be observed from Table 5 that almost all of the respondents (95%) mentioned that notes and coins form part of the cash in their businesses. A little over one out of every four of the respondents (27%) also said that the cash system in their businesses includes monies in their bank accounts. Only a few (5%) reported that their cash systems include monies invested in treasury bills. These imply that the constituents of cash in the SME businesses operating in the Sekondi-Takoradi metropolis are notes and coins, monies in their bank accounts and monies invested in treasury bills. This finding conforms to Pieterson (2012) definition of cash as the total amount of currency a business has in its hand and the funds deposited in its bank accounts and it is the medium of exchange and store of value that allows businesses to carry out their various operations.

Cash management practices

The results of the analyses on the actual practices that the SMEs within the Sekondi-Takoradi metropolis adopt in the management of their cash are presented under this section using Tables 6 and 7. The result of the descriptive analysis on the actual cash management practices engaged by the SME in STMA is presented in Table 6. It should be noted that the cash management practices were measured on a four-point Likert Scale where 1 = Never; 2 = Rarely; 3 = Sometimes; and 4 = Often. Thus, the specific tools employed for the analysis are the means and the standard deviations as they portray a general view of the respondents on the issues at hand. The findings in Table 6 is in tandem with Chittenden, Hall and Hutchinson (1996) who found in their study that respondents prepared cash budget and regularly hold cash surpluses.

Table 6: Cash Management Practices of SMEs in the Metropolis

Practices	N	Mean	Std. Dev.
Preparation of cash budget	300	2.25	1.197
Cash receipts are deposited into bank account	300	2.09	1.089
Preparation of monthly bank reconciliation statements	300	1.75	1.092
The business uses cash register or point of sale (POS) device	300	1.27	0.774
Cheques are used for paying large amount of cash	300	1.45	0.889
The business has petty cash	300	1.91	1.080
Grand mean	6	1.79	0.141

1.0 -1.49= Never; 1.5-2.49 = Rarely; 2.5-3.49 = Sometimes; and 3.5-4.0 = Often

Source: Field Survey, (2018)

It can be seen from Table 6 that with means between 1.5 and 2.49, the respondents reported that they rarely prepare cash budget (2.25), deposit cash received into their bank accounts (2.09), prepare monthly bank reconciliation statements (1.75) and rarely possess petty cash (1.91) for their business establishments. With a mean of 1.27, Table 6 indicates that the business never use cash register or point of sale (POS) devices in their operations. These indicate that most of the SME establishments operating within STMA only exercises the proper cash management practices of preparing cash budget and depositing received cash into bank account occasionally. Though most of the practices go contrary, these two conform to the cash management strategy of

Srinivasan (1999) and, Perera and Wickremasinghe (2010) that looked at businesses preparing cash budget/forecast, managing cash flows through organized collection and proper disbursement management such as cash discount, regional banking and depository transfer cheque to reduce cash float and improve the internal flow of funds.

Management of cash surplus

What is done with cash surplus in a business has a very direct effect on the business' cash management and so the study wanted to find out what the businesses in the metropolis do with the cash when there is surplus. Thus, the respondents were asked to respond to the following questions: "Does your business normally have cash surplus?" and "If 'Yes', what do you do with the cash surplus?" The result of the analysis on their responses is presented in Table 7.

Table 7: The Usage of Surplus Cash from Business Operations

Uses of cash surplus	Frequency	Percentage
Buy inventory	141	52.2
Invest in other businesses	15	5.6
Use for business expansion	96	35.6
Invest in short-term securities	6	2.2
Pay overheads	12	4.4
Total	270	100.0

Source: Field Survey, (2018)

Table 7 shows that 270 out of the 300 respondents (representing 90%) reported that their businesses usually obtain excess cash from their operations. This is similar to the findings of Chittenden et al (1996) who found in their study that more than half of SMEs in UK regularly hold cash surpluses. Of these, a little more than half of the respondents (52.2%) reported that they use the surplus cash to buy inventories for their business operations. A little over one-third of the respondents (35.6%) mentioned that they use the excess money that results from their operations to expand their various businesses. A few of them (4.4) reported that they rather use the surplus money they get to settle the overheads of their operations. This finding here indicates that the SME businesses generally use the surplus cash they realize from their operations to buy inventories to restock their businesses to ensure continuous operations or to expand their business operations. In support of this finding, Srinivasan (1999) posits that in cash management, businesses should invest their realized surplus cash in short-term securities.

It can also be observed from Table 8 that a little over two-thirds of the respondents (68.8%) reported that they do not have any specific amount above which payment of money is made only by cheque. Contrarily, about one out of every five of them (19.8%) reported that they make cheque payment for their businesses only when the money involved is either GH₵ 5,000 or more. Similarly, a few of them (1%) reported that they make cheque payment whenever they have to effect payment of more than GH₵ 3,000. This indicates that the businesses operating in the Sekondi-Takoradi metropolis generally do not make cheque payments as part of their cash management practices. However, a few do so when they have to pay GH₵ 5,000 or more.

Cheque payments

As part of assessing the cash management practices of the SMEs in the Sekondi-Takoradi metropolis, the respondents were asked to state the amount of money above which they make payment by cheque. Table 8 presents the result of the analysis.

Table 8: The Minimum Amount for Cheque Payment

Amount	Frequency	Percentage
None	198	68.8
GH 500	9	3.1
GH 1,000	9	3.1
GH 2,000	12	4.2
GH 3,000	3	1.0
GH 5,000 or more	57	19.8
Total	288	100.0

Source: Field Survey, (2018)

Types of accounts operated by SMEs

Under this section the respondents were asked to indicate the type of account that they operate for their businesses by choosing from a list of accounts. The result of the analysis on their responses is presented in Figure 1.

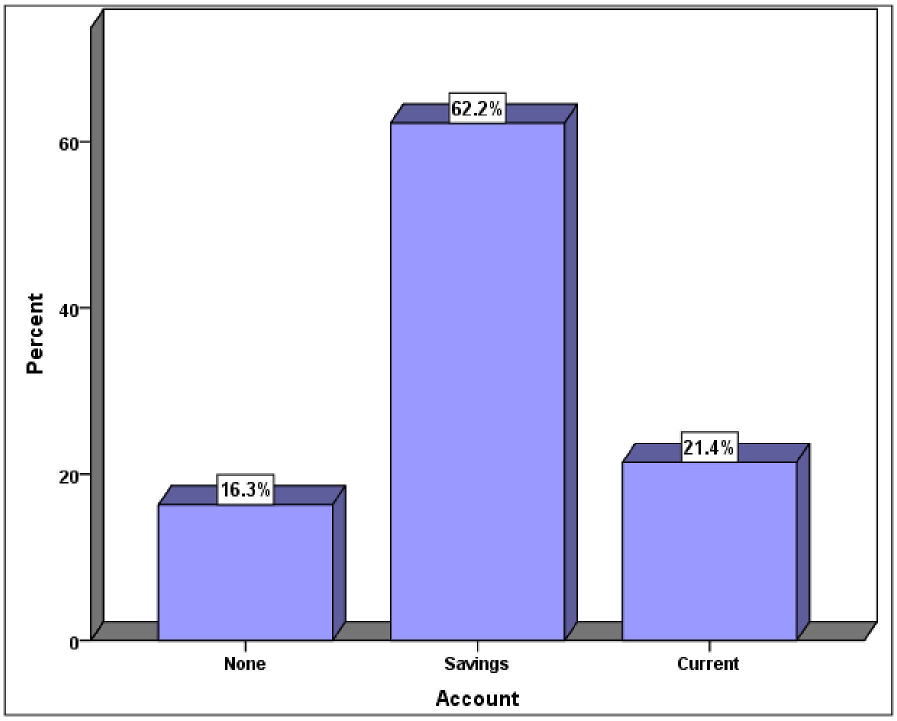

Figure 1: The Types of Accounts Operated by SMEs in the Metropolis

Source: Field Survey, (2018)

About three out of every five of the respondents (62%) reported that their businesses operate a savings account. A little over one-fifth of the respondents (21%) indicated that their businesses operate current accounts. On the other hand, a little over one-tenth of them (16%) indicated that they do not operate any bank account for their businesses. This implies that SMEs in the Sekondi-Takoradi metropolis operate either savings account or current account as part of their cash management practices for their operations. This result buttresses that of Perera and Wickremasinghe (2010) who opined that businesses should use techniques such as regional banking and depository transfer cheque to reduce cash float and improve the internal flow of funds.

Account Receivables Management Practices

This section discusses the account receivables' management practices of the SMEs in the STMA metropolis. In view of that, the study looked at whether the businesses engage in credit sales, availability of policy on selling on credit, the percentage of their monthly sales that are given out on credit as well as the percentage of their credit sales that they are not able to retrieved and thus, become bad debts. The results of the analyses on the responses are presented in Tables 9 to 12 and Figures 2 and 3.The respondents were asked three questions which sought to solicit information on whether the businesses sell or render services on credit; if there is a policy on which customers they sell to on credit; and the period given to credit customers to pay up. Table 9 presents a cross-tabulation of the outcome of the resulting analysis.

Table 9: Credit Sale Management of SMEs in the Metropolis

Credit sales		Availability of credit sales policy: Yes		No		Total	
		Frequency	%	Frequency	%	Frequency	%
Credit period	One week	12	10.0	3	2.5	15	12.5
	Two weeks	39	32.5	6	5.0	45	37.5
	One month	39	32.5	3	2.5	42	35.0
	Two months	18	15.0	0	0.0	18	15.0
Total		108	90.0	12	10.0	120	100.0

Source: Field Survey, (2018)

It can be observed from Table 9 that 120 out of the 300 respondents responded to all the 3 questions on the management of the businesses' sales on credit. According to Pieterson (2012), selling on credit is a form of investment for businesses providing the products or services as they do so to increase their sales to attract new customers as well as retain their old ones and, thereby, considerably increase their profit. Thus, managing credit sales is very essential to the survival of businesses. Table 9 shows that 120 of the respondents reported that they sell on credit. Of these, 108 (representing 90%) reported that they have a policy on which customers they sell to on credit with one-tenth of them (10%) reporting that they do not have such a policy for their business operations. Perera and Wickremasinghe (2010) admonish that providing services or products customers on credit should be guided by a credit policy which considers the customers' capacity, capital, condition and character to repay the debts.

Again, close to three-quarters of the respondents (72.5%) reported that they give their credit customers between two weeks and one month to pay up their debts. A little over one-tenth of them (12.5%) reported that they rather give their credit customers a one-week period to settle their debts. According to Perera and Wickremasinghe (2010), the collection period along with the collection experience tells much about the customers' payment behaviours. In view of this, the collection period, it is advised that the collection period should neither be so short nor so long as tight account receivables' collection policy comes with high collection costs but ensures fewer instances of bad debt whilst a loose collection policy comes with low collection costs but ensures high instances of bad debt (Joshi, 2000).

In a further analysis, the study sought to find out if the period given to credit customers to pay up their debts is related to the availability of credit policy or not.

Thus, a Chi-square test of independence was conducted and the resulting outcome presented in Table 10.

Table 10: Chi-Square Tests on Credit Sale Management of SMEs in the Metropolis

Do you sell on credit?		Value	Sig.
Yes	Pearson Chi-Square	2.603	0.203
	Cramer's V	0.196	0.203
	Contingency Coefficient	0.192	0.203
	No. of Valid Cases	120	

Source: Field Survey, (2018)

It can be observed from Table 10 that Cramer's V which measures the extent of the relationship between the period given to credit customers to pay up their debts and the availability of credit policy is 0.192 indicating a weak relationship between them. Again, the value for the Chi-square test of independence (2.603) is small with a corresponding p-value of 0.203. When this p-value is compared with the critical value, 0.05, it can be seen that the p-value is higher. Thus, we accept the null hypothesis that the two variables are independent of each other and conclude that the period given to credit customers to pay up their debts by the SMEs in the Sekondi-Takoradi metropolis does not relate to the availability of credit policy for their operations.

Means of checking credit policy

As a part of the account receivables management practices, the study sought to find out how businesses within the metropolis adhere to their credit policy. Thus, the respondents were asked "What do you do to check?" and the resulting outcome of the analysis of their responses is presented in Figure 2.

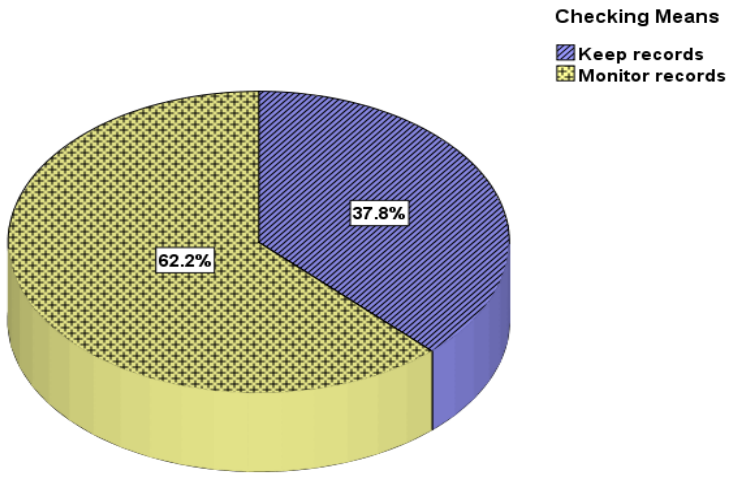

Figure 2: Means of Checking Customers Sold to on Credit

Source: Field Survey, (2018)

Figure 2 reveals that majority of the respondents (about 62%) reported that they keep records on the customers whom have sold or rendered services to on credit. A little over one-third of them (about 38%) indicated that they monitor records on customers they have sold or rendered services to on credit to ensure that they adhere to their policies on selling or rendering services on credit. This is a good practice because it will help the SME businesses operating in the Sekondi-Takoradi Metropolitan Assembly avoid any form of debt-related argument and be able to retrieve their monies from their debtors amicably.

Account receivables management

As part of assessing the working capital management practices of the businesses within the Sekondi-Takoradi metropolis, the respondents were given a list of some common account receivables management practices and were then asked to indicate their level of agreement or otherwise. The results of the analyses on the responses are presented in Tables 11 and 12. Presented in Table 11 is the result of the descriptive analysis on the practices adopted by the SME businesses in STMA to manage their account receivables. It should be noted that account receivables management practices were measured on a four-point Likert Scale where 1 = Never; 2 = Rarely; 3 = Sometimes; and 4 = Often.

Table 11: Account Receivables Management Practices of SMEs in the Metropolis

Practices		Mean	Std. Dev.	N
Credit sales		2.87	0.788	156
Account receivables records are kept		3.25	0.899	156
Form of records kept	Manually	3.42	0.887	156
	Electronically	1.44	0.889	156
	Both	1.46	0.932	156
Follow-up on accounts receivables	Statement of accounts	1.25	0.706	156
	Phone calls	3.44	0.665	156
	Text messages	1.65	0.941	156
	Personal visits	2.25	1.242	156
	Reminder letters	1.40	0.949	156
Extension after credit period		2.48	0.799	156
Overall Mean		2.266	0.757	11

1.0 - 1.49 = Never; 1.5 - 2.49 = Rarely; 2.5 - 3.49 = Sometimes; and 3.5 - 4.0 = Often
Source: Field Survey, (2018)

It can be seen from Table 11 that “The business sell products/provide services on credit to its customers” and “Form of records kept on account receivables” have a mean score of 2.87 and 3.25 respectively. This indicates that the respondents reported that their businesses sometimes sell products or provide services to their customers on credit as well as keep records on their debtors or account receivables. On the other hand, with a mean of 2.48, Table 11 indicates that the businesses rarely give their customers or debtors an extension after the time for paying their debts has elapsed.

This indicate that most of the SME establishments operating within STMA normally do not afford their debtors extra time period to pay defray their debts. Depending on the situation, giving debtors extensions for payment may or may not be a good idea and so Pieterson (2012) suggested that in setting credit extensions, businesses should compare the expected cost for extending credit and the expected profit that would be forgone if there is no credit.

Table 11 further shows that regarding keeping of records on receivables or debtors by the businesses, "Manually" recorded the highest mean of 3.42. This implies that the SME businesses operating within the Sekondi-Takoradi metropolis manually keep records on their debtors and account receivables. Similarly, it can be observed from Table 11 that follow-ups are made on account receivables. However, it can be seen that "Phone calls" and "Personal visits" recorded the highest means of 3.44 and 2.25 respectively. These imply that SMEs in STMA make follow-ups for their monies from their debtors, at least, sometimes through phone calls and on rare occasions by paying personal visits. The use of "Reminder letters" can be seen as the least adopted method for making follow-ups on debtors as it recorded the least mean value of 1.40. These findings support that of Joshi (2000) which stated that businesses should collect their receivables through methods such as sending notice or letters to customers to inform them of the past-due status of their credit and request payment; telephoning and/or visiting the customers in a bid to get their monies; employing the services of a collection agency and taking legal action against defaulting customers.

Percentage of monthly sales on credit

In finding how much of the businesses' sales are given out on credit the respondents were asked to indicate the percentage of their businesses' monthly sales that were given out on credit. Figure 3 presents the result of the analysis of their responses.

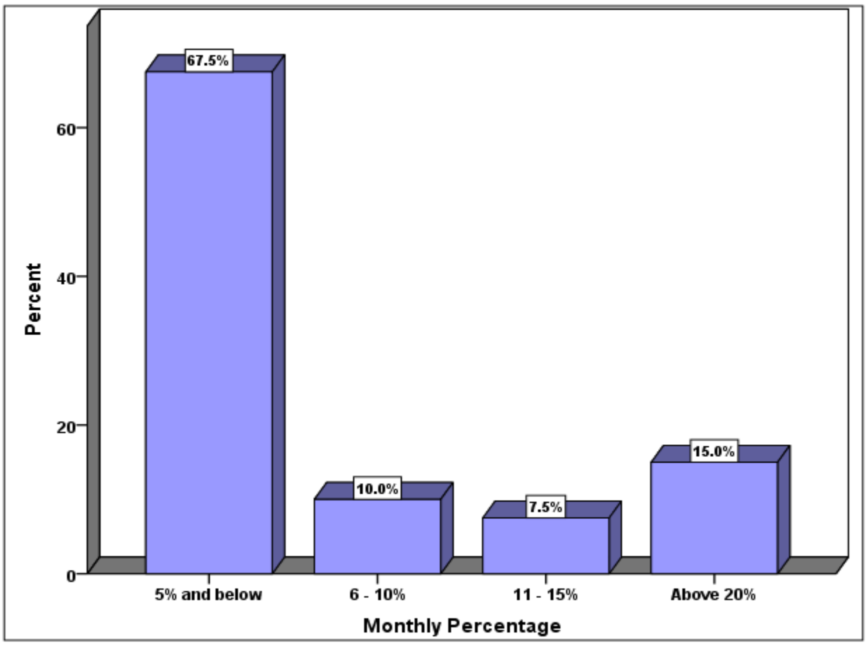

Figure 3: Percentage of Monthly Sales Given Out on Credit by SMEs
Source: Field Survey, (2018)

It can be observed from Figure 3 that about two-thirds of the respondents (67.5%) reported that they give out a maximum of 5% of their business' monthly sales on credit whilst a few of them (7.5%) reported that give out between 11 and 15 percent of theirs. A little over one-tenth of the respondents (15%) indicated that they give out more than 20% of their monthly sales for credit. This implies that businesses operating in the Sekondi-Takoradi metropolis give, not more than, 5% of their monthly sales out on credit.

Non-retrieved business receivables

A business' capability to retrieve all or almost all of its account receivables go a long way to increase its capital base. As such, the respondents were asked to indicate how much of their businesses' receivables they were unable to retrieve from debtors. The result of the analysis is presented in Table 12.

Table 12: Percentage of Business Receivables Not Retrieved by SMEs

Quantity	Frequency	Percentage
None	111	71.2
5% and below	36	23.1
6 - 10%	3	1.9
11 - 15%	3	1.9
Above 20%	3	1.9
Total	156	100.0

Source: Field Survey, (2018)

Table 12 shows that about seven out of every ten of the respondents (71.2%) said "None" when they were asked to indicate the percentage of their businesses' receivables they were unable to retrieve from their debtors. On the other hand, a few of them (1.9%) reported that they were unable to retrieve more than 5% of their businesses' receivables their customers who owe them. This implies that though some of the businesses operating in Sekondi-Takoradi metropolis were unable to retrieve their receivables most of them were able to retrieve bit of their monies on credit.

Inventory Management Practices

This section looks at the inventory management practices of the businesses operating within the Sekondi-Takoradi Metropolis. In view of this, the section specifically deals with the types of inventory being kept by the SMEs; how adequate inventory level for business are determined; the type of inventory record system being used by SMEs; and the rate which physical stock taking is conducted.

Types of inventory held by SMEs

The respondents were asked to indicate the constituents of their businesses' inventories and the outcome of the resulting analysis is presented in Table 13. Like

Table 5, it should be noted that Table 13 is also a multiple response table (that is, a table that is generated from questions which allow respondents to give more than a single answer), so the percentages and totals are not calculated in the same manner ("Percent" is based on the total number of responses whilst "Percentage of Respondents' is based the total number respondents to that question)

Table 13: Type of Inventory Kept by SMEs in the Metropolis

Inventory	Frequency	Percentage
Raw materials	78	20.0
Finished goods	186	47.7
Accessories	87	22.3
Semi-finished goods	39	10.0
Total	390	100.0

Source: Field Survey, (2018)

Table 13 shows that about three out every five of the respondents (63.9%) reported that they have been keeping finished goods as an inventory whilst a little over a quarter of them (26.8%) reported that they keep raw materials as their inventories. About one out of every ten of the respondents (13.4%) said that their businesses have been keeping semi-finished goods as inventories. This finding indicates that most of the SME businesses in STMA keep finished goods inventories and this is not surprising as most of the respondents indicated that their main business activity was trading (see under "Industry" in Table 1). The finding is similar to that of Joshi (2000) as he found that most of the SMEs in UK keep finished goods.

Inventory management practices of SMEs

As part of assessing the working capital management practices of the businesses within the Sekondi-Takoradi metropolis, the respondents were given a list of some common inventory management practices and were then asked to indicate their level of agreement or otherwise. The result of the analysis on the responses are presented in Tables 14.

Table 14 presents the result of the analysis on the inventory management practices that the SMEs in STMA have adopted in their operations. The inventory management practices of the businesses were measured on a four-point Likert Scale where 1 = Never; 2 = Rarely; 3 = Sometimes; and 4 = Often.

Table 14: Inventory Management Practices

Practices		Mean	Std. Dev.	N
Preparation of budget		2.42	1.157	297
Inventory management model		2.54	1.106	297
Records keeping	Manually	2.87	1.180	297
	Electronically	1.45	0.958	297
	Both forms	1.48	1.020	297
Carryout stocktaking		2.32	1.296	297
Overall Mean		2.182	0.338	6

1.0 - 1.49 = Never; 1.5 - 2.49 = Rarely; 2.5 - 3.49 = Sometimes; and 3.5 - 4.0 = Often

Source: Field Survey, (2018)

It can be seen from Table 14 that “Use inventory management model or technique – List” recorded a mean of 2.54. This indicates that the businesses within STMA use the “List inventory management technique” to manage their inventories.

With respective means of 2.42 and 2.32, Table 14 indicates that SME businesses in the Sekondi-Takoradi metropolis, in general terms, rarely prepare budget for different types of inventory and carry out stocktaking. Contrarily, Chittenden et al (1996) and Atrill (2006) found in their various studies that most of the respondents prepare sales budgets for their inventories.

Regarding record keeping on inventory management, Table 14 shows that the respondents' responses for "Manually" recorded the highest mean of 2.87. This indicates that most of the SME businesses in the Sekondi-Takoradi metropolis keep the records on their inventories manually. Similarly, Chittenden et al (1998) found out that a good number of the SMEs relied on manual methods of stock control. However, majority of them were not using stock optimisation techniques. Perera and Wickremasinghe (2010) recommended the economic order quantity (EOQ) and material requirements planning as techniques which businesses can use to plan, purchase and replace inventories.

Determination of adequate inventory level for business

The method used in determining the level of inventory adequate for a business is very important as it ensures that there is constant supply to ensure smooth operations. In view of that the respondents were asked "How do you determine the level of inventory that is adequate for your business?" and the result of the analysis is presented in Figure 4.

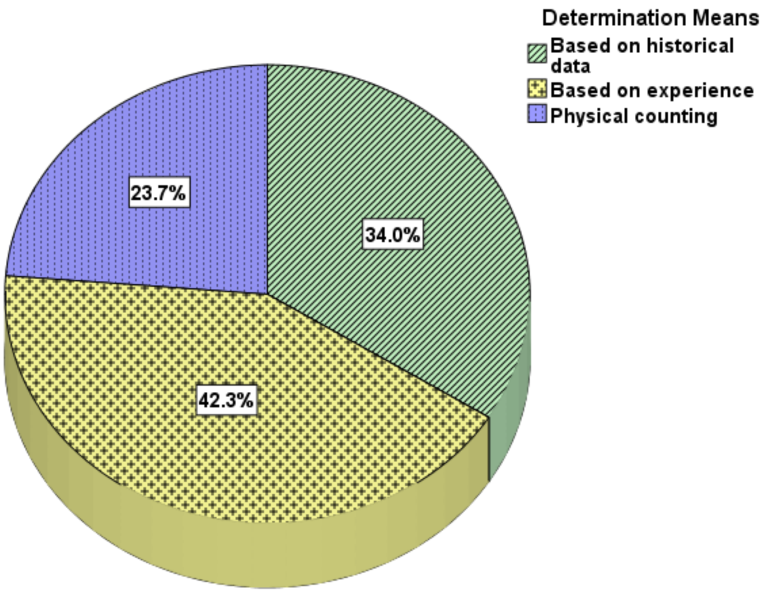

Figure 4: SMEs' Means for Determining Adequate Inventory Level for Business
Source: Field Survey, (2018)

It can be observed from Figure 4 that about two out of every five of the respondents (42.3%) reported that they determine the adequate level of inventory for their businesses based on their previous experiences in the business world. Close to a quarter of the respondents (23.7%) reported that they determine the adequate level of inventory for their businesses through physical counting. This indicates that the businesses operating within STMA determine the adequate level of inventory for their businesses based on their previous experience; available data and physical counting.

The type of inventory record system used by SMEs

The respondents were asked to state the kind of inventory system that they use in recording their inventories and the outcome of the resulting analysis is presented in Figure 5.

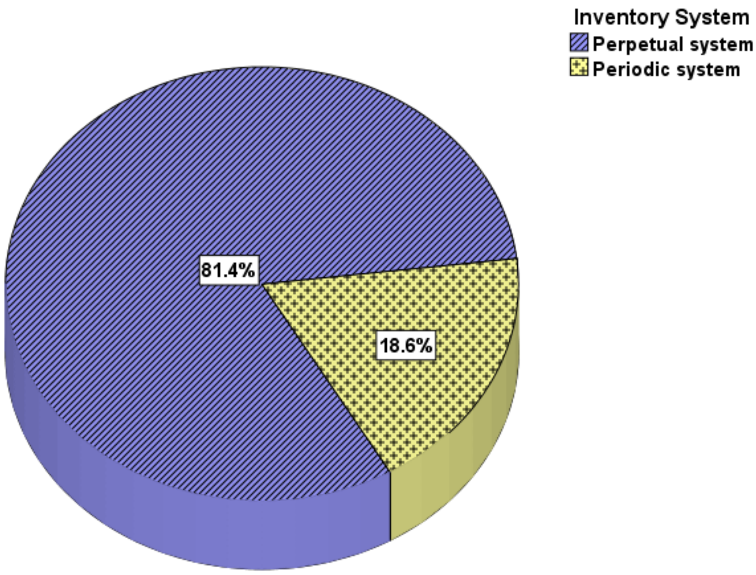

Figure 5: The Type of Inventory Record System SMEs Used for Recording Inventories
Source: Field Survey, (2018)

It can be seen that about four-fifth of the respondents (81.4%) expressed that their businesses use the perpetual inventory system to record their inventories. On the other hand, about two out of every 10 of the respondents (18.6%) reported that they rather use the periodic system. The finding here implies that the SME businesses operating within the jurisdiction of STMA generally use the perpetual inventory system to record their inventories.

Frequency of physical stocktaking

The study wanted to find out how frequent the SMEs have been carrying physical stocktaking exercises as part of their operation so they were asked “How often do you do physical stocktaking?” Figure 6 presents the result of the analysis.

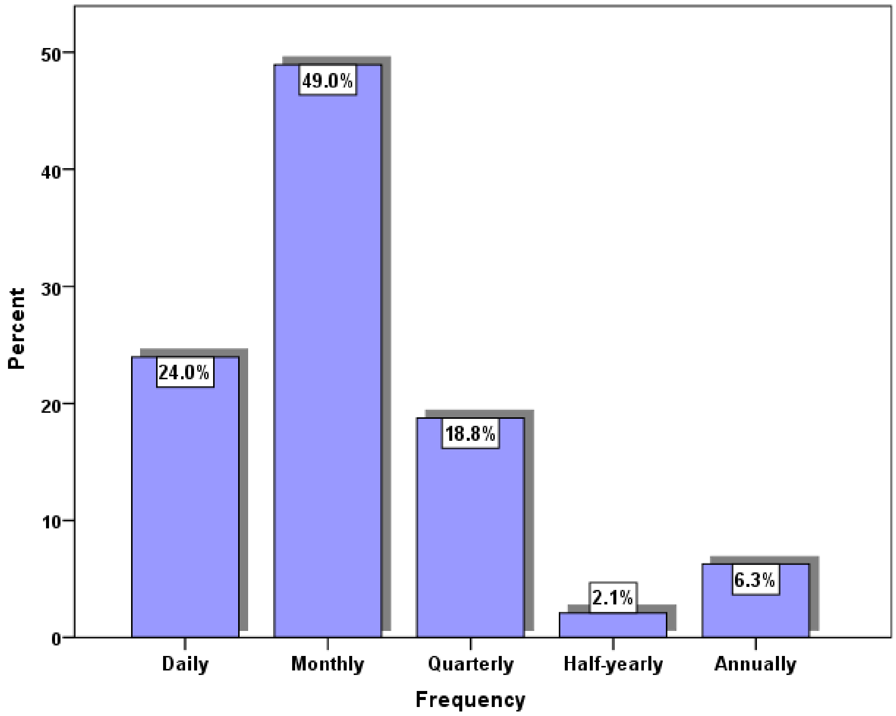

Figure 6: The Frequency at Which Businesses Conduct Physical Stocktaking

Source: Field Survey, (2018)

Figure 6 depicts that close to half of the respondents (49%) reported that they conduct physical counting of their stocks on monthly basis whilst a few of them (2%) reported that they do so every six months. Close to a quarter of the respondents (24%) reported that they do physical stocktaking daily. This implies that the businesses operating within STMA conduct physical stocktaking frequently, at least every quarter of the year.

Challenges in Managing Working Capital

"Do you encounter some challenges in managing your working capital?" is the question that was posed to the respondents in an effort to ascertain the challenges that the SMEs operating within Sekondi-Takoradi metropolis encounter in managing their working capitals. The result of the analysis is presented in Figure 7.

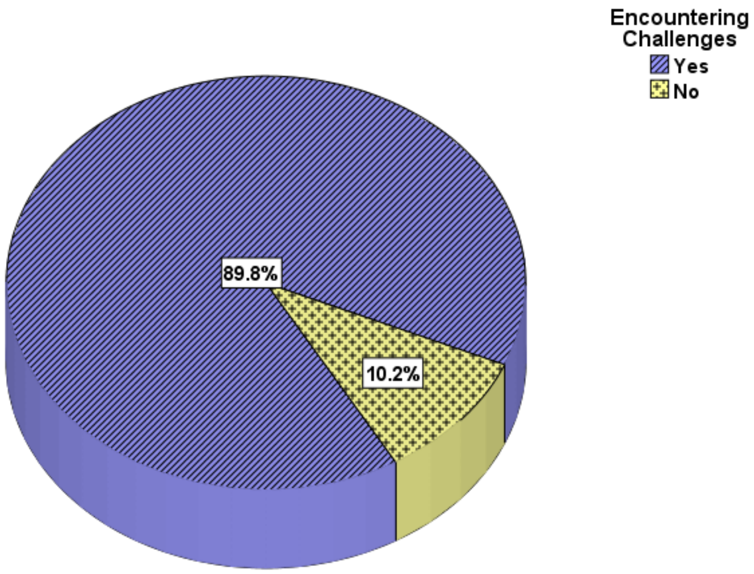

Figure 7: Businesses Encountering Challenges in Managing their Working Capitals
Source: Field Survey, (2018)

It can be observed from Figure 7 that about nine out of every ten of the respondents (89.8%) reported that they have been encountering some challenges in managing their businesses' working capitals. This supports the findings of Agyei-Mensah (2012) who noted that SMEs face diverse challenges such as lack of qualified internal accounting staff, lack of adequate training as well as lack of value from engaged account staffs in developing robust financial management systems. Unfortunately, these challenges drive most of them to their extinction. On the other hand, one-tenth of the respondents (10.2%) reported that they have not been experiencing any form of challenge in managing the working capitals for their businesses. This indicates that the SME businesses operating within the Sekondi-Takoradi metropolis have been experiencing various forms of challenges in managing their working capitals.

Challenges in managing working capital

As part of identifying the challenges that businesses within the Sekondi-Takoradi metropolis face in the management of their working capital, respondents were given a list of some common perceived challenges and were then asked to indicate their level of agreement or otherwise. The result of the descriptive analysis on the challenges encountered by the SME in STMA is presented in Table 15. It should also be noted that the challenges encountered were measured on a four-point Likert Scale where 1 = Strongly Disagree (SD); 2 = Disagree (D); 3 = Agree (A); and 4 = Strongly Agree (SA). Thus, the specific tools employed for the analysis are the means and the standard deviations as they portray a general view of the respondents on the issues at hand.

It can be observed from Table 15 that with means between 2.8 and 3.2, the respondents reported that they, at least, agree that their businesses usually plan their operations (2.89); find it difficult to compete with big businesses (3.15) and to collect money from credit customers (2.90); as well as endure unfavorable contracts conditions from customers (2.95). Most of these findings supports those of Atrill (2006) and Bart (2016) who identified unfavorable contracts as one of the challenges in managing the working capital of SMEs.

Table 15: Challenges Encountered by SMEs in the Metropolis in Managing their Working Capitals

Challenges	Mean	Std. Dev.	N
It takes long to replenish inventory	2.60	0.792	297
Operations are usually planned	2.89	0.765	297
There are frequent bad debts or delinquent receivables	2.63	0.761	297
Inability to analyze transactions for recording purposes	2.54	0.834	297
There is difficulty to compete with big businesses	3.15	0.893	297
Inventories move slowly	2.63	0.837	297
There is unfavorable contracts from customers	2.95	0.810	297
It is difficult to collect money from credit customers	2.90	0.824	297
Overall Mean	2.784	0.048	8

1.0 - 1.49 = SD; 1.5 - 2.49 = D; 2.5 - 3.49 = A; and 3.5 - 4.0 = SA

Source: Field Survey, (2018)

On this issue, it can be observed that small and medium enterprises usually find themselves in weak positions at the negotiating table when negotiating credit terms with their customers. The findings also buttress that of Atrill (2006) who found that SME businesses find it difficult to collect their money from their debtors by pushing them to pay when they default the terms of credits because they fear losing sales from that customer in the future. Thus, they are saddled with a greater amount of overdue or bad debts. On the other hand, finding of Bart (2016) contradicts the finding that the SMEs' operations are usually planned. This is quite interesting as even SMEs in the UK indicated that they do not accurately plan their sales, inventory and operations.

With an overall mean of 2.78, Table 15 indicates that apart from businesses being able to plan their operations, they have been facing numerous challenges regarding inventory replenishment, competition, slow market activities and issues of bad or delinquent receivables. These findings indicate that most of the SME establishments operating within STMA will find it difficult sustain their operations if appropriate measures are not put in place.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the summary of the findings, the conclusions made from the results and the recommendations that were made based on the conclusions of the findings from the study.

Summary of the Study

The study sought to assess the practices that small and medium enterprises (SMEs) in the Sekondi-Takoradi Metropolitan Assembly (STMA) adopt in managing their working capital. Questions such as "Are the kinds of practices the SMEs in STMA use in managing their working capitals effective?" "What are the challenges that SMEs encounter in the management of their working capital?" as well as "How can the challenges in managing the working capital of SMEs be reduced or overcome?" were used to guide the study which was conducted using the descriptive research design on SMEs within STMA.

Through a combination of stratified random and purposive sampling techniques, a sample of 300 respondents was chosen from the study's population which consisted of entrepreneurs and their employees responsible for managing their firms' working capitals (irrespective of their age, gender, education, type of industry and the number of years they have been in business). Data for the study was gathered from respondents' using self-administered interview guide, analysed using statistical techniques such as means, percentages, Chi-square and reliability analyses.

Cash management

Regarding the businesses' working capital management, it was found out that most of the respondents said that their cash consisted of notes and coins in hand as well as credit balances in their bank accounts. Generally, the respondents rarely prepare cash budgets, deposited cash sales into bank accounts, prepare monthly bank reconciliation statements, had petty cash and used cash register or point of sale (POS) devices for their operations. Again, almost all of the respondents reported that they usually get excess cash which they use to buy inventories for their operations, expand their various businesses and settle their operational overheads from their business operations. Regarding minimum cash payment, majority of the respondents reported that they do not have specific amounts above which they make payment by cheque. However, most of the little that make such payment do so when they have to pay either GH₵ 5,000 or more whilst on using banking services, most of the respondents said they operate either a savings or current account for their businesses though a few of them reported that they do not.

Inventory management

On inventory management practices of the businesses, it was found out that most of the SME businesses keep finished goods inventories and raw materials as their inventories. Majority of the respondents also indicated that they sometimes use the "List" inventory management model or technique to manage their inventories and manually keep record on inventory management whilst they rarely prepare budget for different types of inventory and carryout stocktaking. It was found that the SMEs determine their adequate level of inventory based on their previous experience. They employed the perpetual inventory system to record their inventories with only a few of them indicating they use the periodic system. A few of respondents indicated that they physical count their inventory every six months, most of them reported that they do so either daily or monthly.

Account receivables management

Furthermore, in assessing the account receivables management practices, almost all of those who reported that they sell on credit said that they have a policy on which customers they sell to on credit with only a few reporting that they do not have such a policy. The respondents indicated that they usually give their credit customers between two weeks and one month to pay their debts with majority of them reporting that they checked the policy by keeping and monitoring records on the customers whom they have sold or rendered services to on credit. Whilst most of the respondents said that their businesses sometimes sell products or provide services to their customers on credit and keep records on their debtors/account receivables, they said they rarely give their debtors extensions after their time for paying their debts has elapsed.

Again, the respondents generally reported that they manually kept records on their debtors/account receivables and made follow-ups sometimes through phone calls and, on rare occasions, by paying personal visits. As part of their account receivable practices, most of the respondents also reported that they give out a maximum of 5% of their businesses' monthly sales on credit with quite a few of them given out as high as above 20%. However, the respondents indicated that though some of the businesses operating in the metropolis were unable to retrieve their receivables most of them were able to retrieve a bit of their monies from their debtors.

Challenges

Finally, the study revealed that almost all of respondents reported that they have been encountering some challenges in managing their businesses' working capital. As such they revealed that SME businesses were able to plan their operations. However, they indicated that they have been facing various challenges such as replenishing their inventories; competing among themselves and with big companies; experiencing slow business activities and dealing with issues of bad or delinquent receivables.

Conclusions

Based on the results from the study, it can be concluded that most of the businesses operating in the STMA metropolis engage banking services such as operating either a savings or current account a few of them do not. Similarly, the SME businesses were not engaged in strong cash management practices, in that they rarely prepare cash budget, deposit cash received into their bank accounts, prepare monthly bank reconciliation statements and had petty cash system as well as use cash register or point of sale (POS) devices for their operations.

The study revealed that the SMEs' account receivables management practices were quite good as most of them sell or give out quite a small percentage of their sales on credit; mostly keep and monitor records on credit customers; as well as being able to mostly retrieve their cash in credit. However, some of them lacked policies on which customers they sell to on credit.

Relating to the inventory management practices, the businesses are fairly alright due to the system and techniques used to manage and determine their adequate level of inventory, they were found to require much improvement. This is as a result of the fact that SMEs operating within the metropolis do not often prepare budgets for different types of inventory they hold.

Finally, the study shows that the SMEs in the Sekondi-Takoradi metropolis have been experiencing challenges such as replenishing their inventories; competing among themselves and with big companies; experiencing slow business activities and dealing with issues of bad or delinquent receivables.

Recommendations

Based on the findings and conclusions of the study, the study recommends that:

1. Businesses should not hold cash for more than 24 hours without depositing them into their bank account. They must also prepare cash budget, monthly bank reconciliation statements and have petty cash system as well as use cash register or point of sale (POS) devices for their operations.
2. Owners and managers of the SMEs should ensure that physical stocktaking of inventories are conducted regularly and frequently,
3. Business owners and managers should introduce and improve information and communication technology systems of their businesses to enhance their operations.
4. Staff of the businesses should be trained well on Information and

Communication Technology devices and the latest industrial technologies to ensure improved productivity.

5. Business owners as well as managers should formulate, keep and implement well-documented polices on providing services or selling products on credit.
6. Further research should be conducted on the use of information and communication technology in managing working capital of SMEs in Ghana.

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APPENDIX

UNIVERSITY OF CAPE COAST

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING

QUESTIONNAIRE

Working Capital Management on Micro and Small Enterprises. (A Case Study of Sekondi-Takoradi Metropolitan Assembly)

Dear Sir/Madam,

As part of the requirement for completing a Master of Business Administration programme, this study seeks to solicit information on the management practices adopted by small and medium enterprises (SMEs) in the Sekondi-Takoradi Metropolis in the management of their working capital. You are assured that any information provided will be kept confidential and will be used for academic purpose only.

Please respond by either ticking [√] or writing where appropriate.

SECTION A: DEMOGRAPHIC DATA

1. Gender: i. Male [ ] ii. Female [ ]
2. Position: ………………………………………..
3. How long have you been working with establishment? i. Less than a year [ ] ii. 1-5 yrs. [ ] iii. 6-10 yrs. [ ] iv. More than 10 yrs. [ ]

SECTION B: WORKING CAPITAL MANAGEMENT PRACTICES' EEFECTIVENESS

4. Does your enterprise have documented policy in managing its cash? i. Yes [ ] ii. No [ ]

5. Kindly explain your response in **Que. 4**.

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…………………………………………………………………………………

6. How does your enterprise manage its cash?

Practices	**Never**	**Rarely**	**Sometimes**	**Often**	**Always**
i. Always prepare cash budget					
ii. Cash is managed through bank account					
iii. Bank reconciliations are always prepared					
iv. The business uses computers to manage cash					
v. There is always cash surplus after operations					
vi. There is always cash shortage after operations					

6. How are cash surpluses managed if they occur?

i. Do not experience surpluses [ ] ii. Deposited at bank [ ] iii. Invested in treasury bills [ ] iv. Invested in other businesses [ ] v. Used to pay debts/liabilities [ ] vi. Other (specify) ………..…………………... [ ]

7. How does the business manage its cash shortages?

i. Do not experience shortages [ ] ii. Borrow from bank [ ] iii. Borrow from creditors [ ] iv. Borrow from family and friends [ ] v. Delay in making payments [ ] vi. Other (specify) ………………………….. [ ]

8. Does this establishment have documented policy in managing its debtors (or account receivables)? i. Yes [ ] ii. No [ ]

9. Kindly explain your response in **Que. 8**.

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10. How does your enterprise manage its debtors or account receivables?

Practices	Never	Rarely	Sometimes	Often	Always
i. The business sells products/provide services on credit to its customers					
ii. Records are kept on the debtors/account receivables of the company					
iii. Computers are used to manage the company's debtors/account receivables					
iv. Follow-ups are made on company's receivables					
v. Receivables not collected are reviewed					

11. How much of the enterprise's receivables are you unable to retrieve from debtors? i. 5% and below [ ] ii. 6 - 10% [ ] iii. 11 - 15% [ ] iv. 16 - 20% [ ] v. Above 20% [ ]

12. Does your enterprise have a documented policy in managing its inventory?

i. Yes [ ] ii. No [ ]

13. Kindly explain your response in **Que. 12**.

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14. How does your enterprise manage its inventory?

Practices	Never	Rarely	Sometimes	Often	Always
i. Prepare budget for managing inventory					
ii. Review inventory levels					
iii. Use inventory management model or technique					
iv. Keep records on inventory management					

v. The business uses computers to manage its inventory					
vi. Take inventory annually					

15. How do you determine the level of inventory?

i. Based on inventory theory [ ] ii. Based on historical data [ ] iii. Based on experience [ ]

16. What kind of inventory record system do you use in recording your inventories? i. Perpetual system [ ] ii. Periodic system [ ]

SECTION C: CHALLENGES IN MANAGING WORKING CAPITAL IN SMES

17. Do you encounter some challenges in managing your working capital?

i. Yes, always [ ] ii. Yes, sometimes [ ] iii. No, not at all [ ]

18. What are some of the challenges that you encounter in managing your capital?

Challenges	**Strongly Disagree**	**Disagree**	**Agree**	**Strongly Agree**
i. There has been long lead times in supply-chain				
ii. Planning for operations, sales and inventory are inaccurate				
iii. There is frequent bad debts or delinquent receivables				
iv. Inability to analyze transaction data for business decisions				
v. Contracts from suppliers are usually unfavorable				
vii. Inventory quicklybecome obsolete				
viii. There is unfavorable contracts from customers				

ix. There is poor credit management				
x. Goods and services are promptly paid				

SECTION D: SOLUTIONS TO CHALLENGES IN MANAGING WORKING CAPITAL

19. Do you think the challenges you encounter in managing your working capital can be solved?

i. Yes, definitely [ ] ii. Yes, somehow [ ] iii. No, not at all [ ]

20. How can the challenges be solved or overcome?

Solutions	**Strongly Disagree**	**Disagree**	**Agree**	**Strongly Agree**
i. Deliver supplies using the just-in-time (JIT) approach				
ii. Assume ownership in strategic areas until production begins				
iii. Authorities should provide training to all front-runners of SMEs				
iv. Provide update on sales plans, production schedules, inventory volumes and customer lead times				
v. Create a strict invoicing and receivables policies				

21. Please state any other challenges.

………………………………………………………………………………