# WORKING CAPITAL MANAGEMENT PRACTICES OF SMALL SCALE ENTERPRISES IN THE CENTRAL REGION OF GHANA

**Edward Marfo-Yiadom**
Department of Accounting and Finance, School of Business,
University of Cape Coast, Cape Coast – Ghana.
E-mail: emyiadom@yahoo.com

**Samuel Kwaku Agyei**
Department of Accounting and Finance, School of Business,
University of Cape Coast, Cape Coast – Ghana.
E-mail: twoices2003@yahoo.co.uk

***ABSTRACT***

*The main thrust of this study is to unveil the working capital management practices of SSEs in the Central Region of Ghana. The study used descriptive statistics for the presentation and analysis of findings. The results show that 38 percent of SSEs received credit from their suppliers and the average credit period ranged between two weeks to one month. On the other hand, the credit period given by SSEs to their credit customers ranged between less than a month and 60 days. From the study, two main problems faced by SSEs in dealing with credit customers are late payment and bad debt. The results show that 50 percent of respondents use notebooks while only 0.7 percent uses computers for inventory control. Fifty-seven percent of the respondents had bank account for their businesses. Personal savings accounted for about 60 percent of start-up capital and SSEs consider inflation/price increases to be more problematic than even high debtors turnover period and low stock turnover. Consequently, it is recommended that there should be greater collaboration between the Business Advisory Centres (BACs) and the various associations of SSEs for the financial training of entrepreneurs. Government will have to expand the BACs currently located in only the district and regional capitals. The National Board for Small Scale Industries (NBSSI) should design and print more simplified record keeping documents, like their current cash book, for use by the SSEs. The SSEs should use their associations in a co-operative manner to procure inventory.*

**Key Words:** *Working capital management, inventory, cash, accounts receivable, Accounts payable, central region, Ghana.*

## 1. INTRODUCTION

Evidence has shown that small and medium enterprises (SMEs) in Ghana over the years have contributed greatly to the overall employment and production of goods and services. According to Abor and Quartey (2010), small and medium enterprises provide 85 per cent of manufacturing employment, contributes about 70 per cent to Ghana's Gross Domestic Product and account for about 92 per cent of businesses in Ghana.

The importance of finance in promoting the growth of small business has been acknowledged in prior studies on small business growth and development (Abor and Biekpe, 2006, Kasekende, 2001). Other studies have identified finance as the most important constraint to growth in the small business sector (Aryeetey *et al,* 1994; Steel and Webster, 1992 and Sowa *et al,* 1992). Mead and Liedholm (1998) in their study of the problems of small business in Africa identified lack of demand and shortage of working capital as the main reasons for small business closures in Africa. Also, Mensah (2002) noted that the reasons for small scale industries in the central region of Ghana producing at less than full capacity were limited markets, inadequate working capital, use of obsolete equipments, lack of machines and seasonal fluctuations in raw material supply.

Writing on the importance of working capital, Baker (1991) argued that working capital constitutes a large portion of the firm's total assets. Although the level of working capital varies widely among different industries, firms in manufacturing and retailing often keep more than half or their total assets as current assets. In the case of SMEs many of whom have no long term assets such as building and vehicles of their own, the percentage is even higher since the business' current assets are held in inventory, accounts receivable and bank and cash balance. Working capital management directly affects the firms' long-term growth and survival. This is due to the fact higher levels of working capital are needed to support sales growth or production.

Unfortunately, however, many SSEs operate their businesses without monitoring the employment and utilization of their working capital. In reality, owners of SSEs simply cannot afford to disregard the process of working capital management. According to Marfo-Yiadom (2002), many SSEs do not keep accounting records on their operations. Thus, in the absence of proper accounting records and information, the SSEs in Ghana face the problem of differentiating clearly between their working capital and profit.

Due to this problem, many SSEs tend to collapse few years after they have been established or at best, perform poorly in subsequent years. Buame (1996:170) was right when he noted that " lack of adequate financial resources remain one of the perennial problems affecting the development and organization of entrepreneur activities in Ghana especially for expansion of business.

Although, the problem of finance and for that matter working capital has been identified as one of major constraints to growth of small businesses, most of the prior studies do not provide the specific issues or details of the challenges confronting entrepreneurs in the management of working capital. Most of research works on working capital have been based on larger firms.

Thus, this paper examines the working capital management practices of small scale enterprises. Specifically, it explores the theoretical framework and ascertains the operative factors that influence working capital management. It then discusses the strategies entrepreneurs use in managing the components of working capital; determine the banking habits of the entrepreneurs; ascertain the various records kept by SSEs to monitor their business operations; Identify the difficulties SSEs encounter in managing working capital; and proffer suggestions to guide effective working capital management by SSEs. The rest of the paper is organized as follows: theoretical and empirical framework; research methodology; presentation and discussion of results and; conclusion and policy direction.

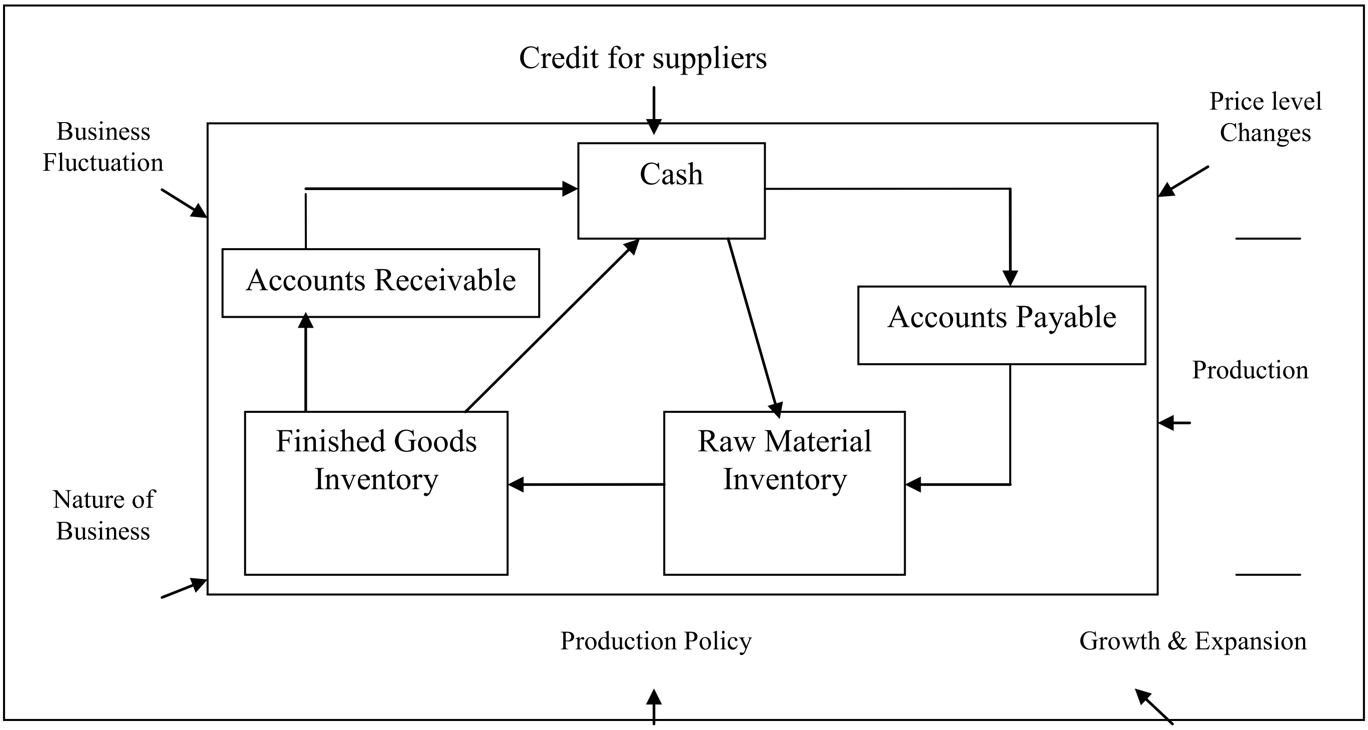
## 2. THEORETICAL AND EMPIRICAL FRAMEWORK

Working capital is usually defined as current assets less current liabilities. The major elements of current assets are inventories, accounts receivables and cash (in hand and at bank) while that of current liabilities are accounts payable and bank overdrafts. According to Atrill (2006), working capital represents a net investment in short term assets. These assets are continually flowing (circulating) into and out of the business, are essential for day-to-day operations. The various elements of working capital are interrelated, and can be seen as part of a cycle. A typical operating (working capital) cycle can be depicted as shown in figure 1. From Figure 1, it can be seen that Cash is used to pay suppliers when raw materials are obtained on credit or raw material are bought with cash, the raw materials are turned into finished goods which are either sold for cash or credit. Credit sales create account receivables which are subsequently collected as cash.

Among the various factors which influence working capital policies of firms include nature of business, market/ demand conditions ((Ben-Horim and Levy,1983), Technology and manufacturing policy (Wood, 1993), credit policy of the firm (Walia, 1977), payable management (Gitman, 2005) operating efficiency (Abdul Rahman and Mohamed Ali, 2006; (Fairchild, 2005), (Sehgal, *et al*, 2006) (Hossain and Akon, 1997)), competition (Filbeck and Krueger, 2005), conditions of supply, size, agency problem, growth and profitability, (Kolay, 1991) industry (Hawawini, *et al*,1986; and Nunn (1981)). Marfo-Yiadom (1996) concluded that nature and size of business, business fluctuation, growth and expansion activities, availability of credit facilities from suppliers, and price level changes influence working capital decisions greatly. Moyer et al (2001) considered sales level, credit policies and the length of the operating cycle.

The extant literature reveals the components of working capital as consisting of current assets less current liabilities. The working capital is affected by a number of factors including the nature of the business, credit policy, conditions of supply, price level changes.

**Figure 1: Operating (Working Capital) Cycle**




*Source: Authors' Construct, 2006*

## 3. RESEARCH METHODOLOGY

The study on working capital management practices was descriptive cross sectional survey, to find out how the enterprises sampled were managing their working capital and to evaluate the practices.

It was difficult to obtain the population of small scale enterprises in the Central Region. In the absence of credible database, the firms included in the study were enterprises whose owners have attended training programmes of the Business Advisory Centres (BACs) of the National Board for Small Scale Industries (NBSSI) or belong to associations such as the Ghana hairdressers and beautician and Ghana Tailors and Dressmakers Associations in six towns. The principal factor that influenced the selection of the six towns was their commercial nature.

Questionnaires were used for data collection. The questionnaire was well structured and combined both open and closed ended questions. Questionnaires were distributed to 700 SSEs in six towns. We retrieved 601 which give about 86 percent response rate. Table 1 shows the sampled enterprises by location.

[Insert Table 1]

## 4. PRESENTATION AND DISCUSSION OF RESULTS

### 4.1 Background of Respondents

The characteristics of the enterprises used in the study are presented in Table 2.
Sole proprietorship was the dominant form of business organization represented by 90 percent. One major observation relating to the legal status of the enterprises was that only about 58 percent had registered with the Registrar General's Department and had evidence to show. In terms of number of years in business, many of the proprietors have been in business between 1-5 years representing about 51 percent. Twenty-six percent had been in business between 6-10 years whiles 11.3 percent had been in business for more than 15 years.

The large number of enterprises with 1-5 years of existence and the low percentage of those who have been in business for more than 15 years reveals the trends regarding the ease of setting up small businesses and the high rate of small business failures.

[Insert Table 2]

[Insert Table 3]

The nature of the business of the SSEs as depicted in Table 2 reveals that more than half, that is, 55 percent were engaged in retailing, a business which is very easy to set-up in Ghana. Other businesses engaged in by respondents included Tailoring and Dressmaking, Construction, Manufacturing and Hair Styling. The number of employees engaged by the SSEs ranged from nil to thirty. Fifty- one percent of the enterprises engaged between one and five persons, whiles only one percent engaged between 16-30 persons. It is significant to note that about thirty-one percent of the respondents had no employees. Again, this depicts a common feature of small scale enterprises. Family members and apprentices were commonly used by the enterprises surveyed. Regarding educational background of the respondents, 45 percent of them had basic/primary education, 36 percent had secondary education, and 8 percent of them had no formal education. Generally, the respondents were literate, as depicted in Table 3.

[Insert Table 4]

One of the indicators used to determine the size of an enterprise is its turnover. The survey revealed that weekly turnover ranged from about five hundred Ghana cedis (GHS 500) to more than Two Thousand Ghana cedis (GHS 2,000). As depicted in Table 4 and assuming a 52- week year cycle, it means turnover ranged from twenty six thousand Ghana cedis (GHS26, 000) to one hundred and four thousand Ghana cedis (GHS 104,000). This confirms the small nature of the businesses surveyed. The estimation of sales is usually a problem when no proper records are kept. Garlick (1971) reported in a study of traders in Ghana that many traders gave figures from memory. Some with less adequate (or non-existent) account books could give only daily and monthly estimates of in-season and out-of- season sales. This situation has not changed. The record keeping is general poor and thus one can only rely on the recent memories of the traders to estimate the level of sales.

### 4.2 Inventory Management

Inventory is a major component of working capital. Because of the significant investment, a typical business must make in inventories, the proper management of this asset can have a significant effect on the profitability of the firm. Grawblowisky and Powell (1980) noted that there are several types of inventory (for instance, finished goods, work-in-progress, raw materials, components and parts) which a business can keep depending on the nature of its operations.

#### *4.2.1 Nature of Inventory Kept*

Table 5 shows that 53percent of inventory kept were on finished goods, 32percent on raw materials, 10percent on components and Parts. This is largely due to the fact that a high percentage of the respondents were engaged in trading.

[Insert Table 5]

The source of purchase of inventory was also investigated. About 75percent of the respondents obtained their inventory outside the Central region, mainly from Accra. Others also bought from the towns in which they do business. Kumasi and Takoradi are other places outside the Region where inventory were bought as shown in Table 6.

Because of the small size and capital of the business of the small scale enterprises, they sometimes pull resources together to buy inventory especially, where they have formed some associations or co-operatives. From the present study, only nine percent of the respondents had actually teamed up with other colleagues to procure inventory. The reason most frequently given was an unwillingness to trust any prospective business associate. This situation explains the typical characteristics of Ghanaian entrepreneurs to operate independently or go solo. They are not prepared to share business information for others to capitalize on.

[Insert Table 6]

#### *4.2.2 Credit Received from Suppliers of Inventory*

Trade credit is a major source of financing business. This stems from the financial support that businesses provide to one another. According Brigham *et al* (1999:840), it is the largest single category of short term debt representing about 40 percent of the current liabilities of the average non-financial enterprise. They noted that the percentage could be somewhat larger for smaller firms. The reason is simply that because small enterprises do not easily qualify for financing from other sources, they rely heavily on trade credit. Fafchamps (1998) observed that supplier credit was the most important source of funds, accounting for a quarter to a third of all outstanding balances of 200 firms surveyed in Zimbabwe. The extent to which businessmen can take advantage of this form of finance depends on their track record and credit worthiness. In this study, thirty-eight percent of the respondents indicated that they receive trade credit from suppliers for periods ranging between two to four weeks. Another 62 percent did not receive any trade credit at all. This confirms the point made by Lasher (2000) that although trade credit is an attractive source of financing, it typically is not extended for a very long period of time.

#### *4.2.3 System of Controlling Inventory*

According to Sathyamoorthi (2001), control over inventory should be exercised by any business as this is a major area calling for strict control by the proprietor. A small business owner has to be careful in this as inventory can easily be stolen by his employees if there are no controls. The need to keep records on inventory cannot be overemphasized. Pilferage of various items of inventory makes records on inventory important. Regardless of the scale of operation, a good record system on stock will do the business more good.

[Insert Table 7]

Table 7 shows that note books were the predominant form of records kept by the SSEs. About 18 percent used surprise checks and nine percent use Tally Cards Less than one per cent of the SSEs use computer software in tracking inventory. This situation is so because the SSEs felt that their scale of operation was too small to keep detailed records of the business. It can be inferred that the small firms did not use complex methods for managing inventory. The firm's surveyed used past experience such as the demand for and the price of their products to determine the level of inventory held by the businesses at any point in time.

#### *4.2.4 Problems Encountered in Managing Inventory*

Inventory management is difficult no matter the scale of operation especially in retailing or merchandising, where varieties of items are dealt with. Table 8 depicts problems that confront some of the respondents. About 35percent said they have no problem with their inventory. For those who had problems, a high percentage of 61 mentioned pilfering as their major problem; other problems mentioned included low inventory and use of inventory by family members. Pilfering is the significant problem associated with inventory management. Another problem is with obsolete and slow moving stock. It is common in business especially where no proper forecast of demand is done for an entrepreneur to have slow moving items and /or obsolete inventory. The respondents indicated that they get rid of slow moving items through price reduction and selling on credit. One of the respondents remarked *"this is a better strategy than keeping the items and tying –up funds."*

[Insert Table 8]

### 4.3 Accounts Receivables Management

According to Cunningham *et al* (2000) businesses make sales on credit for two basic reasons: (1) selling on credit may be more convenient than selling for cash and (2) offering credit will encourage customers to buy items they might not otherwise purchase. Chandra (2008) and Fafchamps (1998) noted that while business firms would like to sell on cash, the pressure of competition and the force of custom persuade them to sell on credit. It is valuable to customers as it augments their resources-it is particularly appealing to those customers who cannot borrow from other sources or find it very expensive or inconvenience to do so. The study revealed that 50 percent of the respondents conducted their business on both cash and credit basis. Another 42 percent did business on cash only basis, whiles the remainder did business on credit only basis. Because of the prominence of credit transactions it was necessary to find out the relative percentage of turnover that represented credit sales. Out of the respondents who conducted business on credit basis about 60 percent had between 10-30 percent on credit. The rest could not determine the percentage of their credit sales because of poor or no records kept. To probe further, the respondents were asked to indicate the factors they consider before granting credit to customers. The results are summarized in Table 9.

[Insert Table 9]

The character of the customer as reflected by his/her behaviour (pattern of past payment) was the most significant factor in the granting of credit. Past experience with a credit customer was considered extremely useful in deciding whether to continue extending credit, increase the amount of credit it currently grants to the customer or both. The other factors included the nature of the inventory. Here credit was granted for slow moving items. Salaried workers are considered because, they earn income regularly, and in some instances workers are able to give post dated cheques, which were presented on due dates to various banks.

The credit period given by the respondents to their credit customers ranged between less than a month and 60 days. The most popular credit period was less than a month. Most of them granted credit up to 14 days. This is based on the practice of various trades and also the credit period granted to the entrepreneurs by their suppliers. This was found to be a good practice because the volume of the transactions tends to be generally small and a

Asian Journal of Business and Management Sciences
Vol. 1 No. 4 [29-47]

longer credit period could result in bad debts. In most cases, the two weeks cycle was to enable the customer pay and collect more goods.

### *4.3.1 Methods of Credit Collection*

Although, entrepreneurs exercise some care when extending credit by assessing the customer's ability and willingness to pay, this does not mean that customers always pay.
It is not enough to grant credit to customer, what is more important is the ability to collect the debt. In fact, accounts receivable are only asset to the extent that they can be collected. To monitor credit customers, the business needs to have a system that is able to keep track of each customer. In some of the enterprises surveyed where the owner maintained records of their businesses, note books were used to monitor the performance of their clients. Even those who had no written records indicated that they take time at some time intervals to assess how much of their money or capital is with credit customers.

The strategies/tactics used by the entrepreneurs who were able to collect their money from slow paying customers included: personal visits, reminder through mobile phones, using family members of the credit customers, and requesting previous debt to be paid before additional credit is given. A few of the entrepreneurs reported that they use the police to collect their cash from credit customers. This practice was seen not as a good business practice because it is more of a threat. Police officers should not be influenced unduly or used by the entrepreneurs to achieve their selfish ends.

5.3.2 Problems with Credit Customers
In business not all credit customers pay on time and bad debts are common occurrences. From the study, two problems that the entrepreneurs face in dealing with credit customers were late payment and bad debt. We also observed that about 45 percent had had default customers over the past two years. Out of this, 38 percent were able to collect their money whiles 62 percent could not collect their money from the default customers. Eleven percent of the respondents indicated that they have no problem with credit customers. The high percentage of bad debt is a source of worry as it could lead to business failure.

### **4.4 Problems of Managing Inventory and Accounts Receivable**

The problems that the entrepreneurs encounter in managing their inventories and accounts receivables include: price changes, inflation late payment by debtors, family pressure (the use of inventory to support household budget) as depicted in Table 10.

[Insert Table 10]

### **4.5 Cash Management**

Every business uses cash balances. Cash is used to pay creditors, pay for purchases, and pay wage and salaries to employees. It is also used to acquire non-current assets. Furthermore, it is required to pay interest on loans and taxation. Cash is the most liquid and the most coveted asset of a business. It is the life blood of every enterprise. The success of a business depends to a large extent on how the firm's cash is managed. According to Lasher (2000), bad cash management can make a strong company weak to the point of failure. He stressed that especially among small firms, it is uncommon for companies to be simultaneously profitable and bankrupt. Moyer et al (2001) submit that effective cash management is particularly important for small firms for the following reasons:

- To prepare financial plans to support application for bank loans;
- Because of limited access to capital, a cash shortage problem is both difficult and more costly for a small firm to rectify than for a large firm;
- Many entrepreneurial firms are growing rapidly; they have a tendency to run out of cash. Growing sales require increases in inventories and accounts receivable, thereby using up cash resources; and

- Entrepreneurial firms frequently operate with only a minimum of cash resources because of the high cost of, and limited access to, capital.

The study therefore explored the cash management practices of the sampled enterprises.

#### *4.5.1 Business Accounts*

The proliferation of financial institutions has encouraged a number of entrepreneurs to open account for their businesses. Proximity to the financial institutions was considered very convenient for banking activities. In terms of the type of bank Accounts, the most widely used was savings Accounts. 57 percent of the respondent operated Bank account as depicted in Table 11. The result shows that the SSEs are beginning to appreciate the importance of having a business account. Thanks to the increasing number of financial institutions that are located in the Central region.

[Insert Table 11]

From Table 12, the major reason (accounting for about 43percent of possible reasons) for having a bank account by an SSE was to improve the SSE's chances of being given a loan. Also, it appears that most SSEs do not consider investing in other investment vehicles to be good enough reason to open a bank account. This offers support for the perception that most SSEs are underfinanced and therefore desire to have more capital to facilitate business operation and expansion. The desire for loan seem to have clouded other benefits they stand to gain from having a bank account like to separate business records from personal finance and facilitating debt collection or payment by their customers.

[Insert Table 12]

Table 13 shows that SSEs prefer to deal with rural banks, followed by savings and loans companies, credit unions and then commercial banks. This order is not too surprising because of differences among these financial institutions in terms level of formality required and proximity. Also, the financial institutions had staffs who visit the SSEs to collect their savings, making it convenient for the entrepreneurs.

[Insert Table 13]

The respondents who did not have bank account gave a number of reasons ranging from inadequate capital to operation of *Susu.* Those who operated *susu,* that is, daily savings with the informal financial institutions used it to accumulate capital which they ploughed or reinvested into their businesses. These have been shown in Table 14.

[Insert Table 14]

Closure of account is another issue of concern about banking habit of entrepreneurs. In the present study about 20 percent of the respondents had ever closed their bank account. The reasons for the closure of account included relocation of business to another town, and unsuccessful attempt to obtain a loan.

The main reason given by the respondents for operating bank account was to access loan from the financial institution. Twenty-six percent of the respondents had obtained loan from various financial institutions. The amounts of loan obtained by the respondents are depicted in Table 15. This is similar to Baah-Nuakoh's (1994) study in which he reported that irrespective of the size, sector or the age of the firm, lack of credit is overwhelmingly perceived by entrepreneurs to be the single most serious obstacle facing manufacturing firms in Ghana.

[Insert Table 15]

#### *4.5.2 The Ease of Obtaining Loan*

About 42 percent of those who had ever obtained loan from the bank had some difficulty in obtaining the loan. They mentioned loan not given at the time expected, and difficulty in obtaining collateral as some of the things that made access to loan difficult.

[Insert Table 16]

#### *4.5.3 Assessment of services provided by financial institutions*

Customers expect some appreciable level of services to be provided by their bankers by way of enhancing their business activities. The ratings of the entrepreneurs of the services provided by their bankers are summarized in
Table 17. And about 54 percent of respondents were satisfied with the level of services provided; whiles 18 percent could not express any opinion.

[Insert Table 17]

#### *4.5.4 Records Keeping*

One of the distinguishing features between successful and discontinued small business lie in their approach to the uses which can be made of accounting information. According to JICA (2008), a sound bookkeeping system is the foundation on which all valuable information can be built. Some of the important reasons why financial record keeping is important include but not limited to, monitoring the success or failure of the business, providing information for decision making, obtaining bank financing, other sources of capital, preparation of budgets, and preparing income tax returns. In a recent study in Ghana, Tagoe *et al* (2008) found that small businesses with good record keeping were more successful than those without proper accounting records.

From the Table 18 it was noted that many of the entrepreneurs kept records on their inventory in Note Books. When the respondents were asked to indicate the various records they kept on cash transactions, note book records were the most significant as depicted in Table 18. Other forms of records included pay-in slips, cheque stubs and Cash Book. It was observed that the Business Advisory Centres had organized training for some of the enterprises. The cash books supplied by the BAC were being used by some of the respondents.

[Insert Table 18]

#### *4.5.5 Cash Budget*

It is easier for the older firms with better track record experience, and better contracts to get access to credit than the younger ones (Baah-Nuakoh, 1994). About 15 percent of the entrepreneurs were using Cash Budget. They prepared the cash budget on monthly and on quarterly basis but only a few or a small number of 33 percent prepared it on yearly basis. The reason for this situation of affairs is that there are frequent changes in prices of goods and services that create wide variation between the actual and the budgeted figures when cash budget are prepared for more than six months. The reasons given by the respondents who did not prepare cash budget are summarized in Table 19. About 32 percent indicated that they do not need the cash budget whiles 16 percent said they have no time to prepare the cash budget. About 37 percent could not prepare the cash budget.

[Insert Table 19]

#### *4.5.6 Sources of Initial Capital*

In most countries an important distinguishing characteristic of the sources of financing for small firms is its self-financing capacity. The capital originates from the entrepreneur himself, whether it is for starting a new business of for subsequent development

The initial sources of capital for the respondents are depicted in Table 20. Sixty percent of the respondents financed their business initially from personal saving and 20percent through trade credit. Other traditional sources of start-up capital included bank loans, loan from relatives and loan from friends. This finding is not too different from a study of obstacles to growth of the manufacturing enterprises in Ghana by Baah-Nuakoh (1994) which reported that local commercial banks provided none of the micro firms with start-up funds but 28.6 percent of large firms benefited from bank funds.

[Insert Table 20]

***4.5.7 Short-term Investment***

The short term investment activity of the respondent indicated that a higher percentage did not have any short term investment. This implies that the entrepreneur did not have enough cash to operate their business. Some of them indicated that they use any surplus cash to buy inventory. Only about 10 percent of the respondent firms had investment in treasury bills. There is the likelihood that working capital might have been tide in inventory thereby depriving the entrepreneurs of short term interest on surplus funds.

[Insert Table 21]

## 5. PROBLEMS OF WORKING CAPITAL MANAGEMENT

The problems that the entrepreneurs encounter in managing their working capital includes: price changes, inflation late payment by debtors, family pressure (the use of business funds for household expenses) as depicted in Table 22.

[Insert Table 22]

### 5.1 Training

Only 67 (11.7 percent) of the respondents have ever had basic training in working capital management. Such training programmes were organized by their associations. When the participants were asked whether they will be willing to participate in any working capital management, an overwhelming percentage (74 percent) responded in the affirmative. They needed training in all the areas of the working capital management whilst 51 percent said they needed only cash management training. The low percentage of people who need training in inventory probably the lack of awareness of the benefit they derived from the inventory training.

## 6. CONCLUSION AND POLICY DIRECTION

In this research our main aim was to capture how SSEs managed the various components of working capital. Based on our results, from descriptive statistical analysis, we can identify a set of very interesting key outcomes:

- On inventory control, only 0.7 percent of respondents used computers while 52.9 percent used notebooks. This is very low but it was due not only to the lack of capital to acquire computer and it accessories but also no space to keep them. Given the trend in the use Information communication technology, we hope the small businesses will begin to use computers in business;
- Thirty-eight percent received credit from their suppliers and the average credit period ranged between two weeks to one month;
- Fifty percent of the respondents conducted their business on both cash and credit basis. Another 42 percent did business on cash only basis, whiles the remainder did business on credit only basis. The credit period given by the respondents to their credit customers ranged between less than a month and 60 days. Most of them granted credit up to 14 days. From the study, two problems that the entrepreneurs face in dealing with credit customers were late payment and bad debt;
- Forty-eight percent of the respondents bought their inventory from Accra;

- Notebook was the popular means of keeping record on inventory and cash. This is good especially if it can be done consistently;
- Pilfering was mentioned by 61 percent as the major problem in the managing inventory. This is a common problem with retail businesses because different items of inventory are kept;
- Fifty-seven percent of the respondents operated Bank account, with savings account as the most widely used type of account. Access to loan is the most popular reason (43.43 percent) for operating bank accounts while most of the respondents preferred savings and loans institutions to the other financial institutions;
- Ploughing back of profit was the main reason for not having bank accounts;
- Respondents generally considered it easy obtaining a loan;
- Personal savings accounted for about 60 percent of start-up capital and;
- SSEs consider inflation/ frequent price increases to be more problematic than even high debtors turnover period and low stock turnover.

In view of the above conclusions, some recommendations can be drawn. The focus is on how SSEs can be assisted to improve the management of their working capital. There should be greater collaboration between the Business Advisory Centres (BACs) and the various associations of SSEs for the financial training of entrepreneurs. Government will have to expand the BACs currently located in only the district and regional capitals. The National Board for Small Scale Industries (NBSSI) should design and print more simplified record keeping documents, like their current cash book, for use by the SSEs. The use of field staff by financial institutions to collect deposits from the SSEs at their place of business is laudable and should be maintained. The financial institutions should monitor the savings habits of their clients especially their peak and lean periods and improve their advisory services to enable the entrepreneurs invest in short-term instruments. The SSEs should use their associations in a co-operative manner to procure inventory. By so doing they can take advantage of bulk purchase and also reduce cost of operations especially, the cost of transportation. Entrepreneurs should be honest in dealing with suppliers, especially those who provide them with trade credit. This character, if well nurtured, will enable the SSEs have the discipline and character to access credit from the financial sector.

**REFERENCES**

Abdul Rahman, R., and Mohamed Ali, F. H. (2006). Board, audit committee, culture and earnings management: Malaysian evidence. *Managerial Auditing Journal, 21*(7), 783-804.

Abor, J and Biekpe, N (2006). "How are SMEs financed? Evidence from the Ghanaian nontraditional export sector," *Environment and Planning C: Government and Policy, Pion Ltd*, London, vol. 24(1), pages 71-81, February.

Abor, J. and Biekpe, N (2006). "Small Business Financing Initiatives in Ghana", *Problems and Perspectives in Management*, 4(3), pp. 69-77.

Abor,J. and Quartey,P. (2010) "Issues in SME Development in Ghana and South Africa" *International Research Journal of Finance and Economics,*Issue 39

Aryeetey, E., Baah-Nuakoh, A., Duggleby,T., Hettige, H. and Steel, W.F. (1994). "Supply and Demand for Finance of Small Scale Enterprises in Ghana", Discussion Paper No. 251, World Bank, Washington, DC.

Atrill, P. (2006) *Financial Management for Decision Makers*. London: Pearson Education Ltd.

Baah-Nuakoh, A.A. (1994) Obstacles to Growth of Manufacturing Enterprises in Ghana, *Legon Economic Studies*. No. 9407.

Baker,H.K. (1991) *Financial Management*. New York: Harcourt Brace Jovanovich.

Ben-Horim, M and Levy,H (1983) "Management of Accounts Receivable under Inflation" *Financial Management*, Vol. 12, No. 1, pp 42-48.

Brigham, E.F, Gapenski, L.C and Ehrhardt, M.C (1999) *Financial Management: Theory and Practice.* New York: Harcourt College Publishers.

Buame, S. K. (1996) Entrepreneurship: A contextual perspective. Lund Sweden; Lund University Press.

Chandra, P. (2008) *Financial Management: Theory and practice.* New Delhi: Tata McGraw-Hill Education Private Limited.

Cunningham,R.B. Nikolai, L.A. and Bazley,J.D. (2000) *Accounting Information for Business Decisions*. New York: Harcourt College Publishers

Fafchamps, M.(1998) " Trade Credit in Zimbabwe" in *African Entrepreneurship: Theory and Reality.* Spring, A. and McDade, B.E.(Ed) Gainesville, FL: University Press of Florida.

Filbeck, G and Krueger,T. (2005). Industry Related Differences in Working Capital Management. *Mid-American Journal of Business* 20(2): 11-18.

Garlick, P.C (1971) *African Traders and Economic Development in Ghana*. London: Oxford University Press.

Gitman, L.A. (2005). *Principles of Managerial Finance* (11th Edition). New York: Addison Wesley Publishers.

Grablowisky, B.T, and Rowell, D.R. (1980) *Small Business Financial Management: Theory and Practice*, Norfolk: Old Dominion University.

Hawawini, G., Viallet, C. and Vora, A. (1986), "Industry influence on corporate working capital decisions", *Sloan Management Review*, Vol. 27 No. 4, pp. 15-24.

Hossain, S. Z., and Akon, M. H. R. (1997). Financing of working capital: case study of Bangladesh textile Mills Corporation. *Journal of Financial Management and Analysis, 10*(2), 37-42.

Japan International Cooperation Agency(JICA) (2008) *SME Toolbox: Total know-how for growing a small business in Ghana*, Accra.

Kolay, M. K. (1991). Managing working capital crises: a system dynamics approach.*Management Decision, 29*(5), 46-52.

Lasher, W. (2000), *Practical Financial Management*, (2nd Edition). Thomson South-Western.

Lazaridis, Ioannis and Dimitrios Tryfonidis, (2006) "The relationship between working capital management and profitability of listed companies in the Athens Stock Exchange", *Journal of Financial Management and Analysis*, 19(l), 26-35.

Marfo-Yiadom, E. (1996) *An empirical study of working capital management practices of selected firms in Ghana,* Unpublished MBA Thesis, University of Ghana.

Marfo-Yiadom, E. (2002) "A survey of cash management practices of selected firms in Accra-Tema Metropolitan Area" *The Oguaa Journal of Social Science* Vol. 3 (June): 165-182.

Mead, D. and Liedholm, C. (1998) "The Dynamics of Micro and Small Enterprises in Developing Countries" *World Development*, Vol. 26, No. 1, pp.61-74.

Mensah, J.V. (2002) "Determinants of Capacity Utilisation of Urban and Rural Small Scale Industries in Ghana" *The Oguaa Journal of Social Sciences*. Vol.3 p.120

Moyer, R.C, Maguigan, J.R. andKretlow, W.J (2001) *Contemporary Financial Management.* Ohio: South Western Publishing

Nobanee, Haitham and Al Hajjar, Maryam, (July 13, 2009). A Note on Working Capital Management and Corporate Profitability of Japanese Firms. Available at SSRN: http://ssrn.com/abstract=1433243.

Nunn, K. P. Jr.(1981). "The strategic Determinants of Working Capital: A Product – Line Perspective," *The Journal of Financial Research*, Fall, 207-219.

Rafuse, M. E. (1996) "Working Capital Management: An Urgent Need to Refocus", *Journal of Management Decision*, 34:2, pp. 59-63.

Sathyamoorthi, G. (2001). "Accounting and Control Systems in selected Small and Micro Enterprises in Bostwana" *Africa Journal of Finance and Management*, 96-109.

Sehgal, S., Sahay, B. S., and Goyal, S. K. (2006). Reengineering the supply chain in a paint company. *International Journal of Productivity and Performance Management, 55*(8), 655-670.

Sowa, N.K., Baah-Nuakoh, A., Tutu, K.A. and Osei, B. (1992), "Small Enterprise and Adjustment,The Impact of Ghana's Economic Recovery Programme on Small-Scale IndustrialEnterprises", ODI Research Reports.

Steel, W.F. and Webster, L.M. (1991); Small Enterprises in Ghana: Responses to Adjustment, Industry Series Paper, No.33., The World Bank Industry and Energy Department, Washington.

Tagoe, N., Anuwa-Amarh and Nyarko, E. (2008). "SME access to bank finance in an emerging economy: the role of information management practices." *International Journal of Financial Services Management,* Vol. 3, Number 2 pp. 148-170.

Wood, A. (1993). Efficient consumer response. *Logistics Information Management, 6*(4), 38-40.

**LIST OF TABLES**

| Location of business | Frequency | Percentage |
|---|---|---|
| Mankessim | 81 | 13.5 |
| Cape Coast | 196 | 32.6 |
| Kasoa | 146 | 24.3 |
| Swedru | 98 | 16.3 |
| Assin Foso | 80 | 13.3 |
| Twifo Praso | 60 | 10.0 |
| **Total** | **601** | **100** |

*Source: Authors' Survey 2006*

**Table 1: Location of Businesses studied. N=601**

| | Frequency | Percentage |
|---|---|---|
| *Types Of Ownership* | | |
| Sole Proprietorship | 544 | 90.5 |
| Partnership | 47 | 7.8 |
| Limited Liability Company | 10 | 1.7 |
| **Total** | **601** | **100.0** |
| *Number of years in business* | | |
| Up to 5 | 309 | 51.4 |
| 6-10 | 158 | 26.3 |
| 11-15 | 66 | 11.0 |
| Over 15 | 68 | 11.3 |
| **Total** | **601** | **100.0** |
| *Nature of Business* | | |
| Manufacturing | 53 | 8.8 |
| Hairstyling | 20 | 3.3 |
| Trading | 328 | 54.6 |
| Tailoring/Dressmaking | 123 | 20.5 |
| **Total** | **601** | **100.0** |
| *Number of employees* | | |
| None | 185 | 30.8 |
| 1-5 | 308 | 51.3 |
| 6-10 | 85 | 14.1 |
| 11-15 | 18 | 3.0 |
| Over 15 | 5 | 0.8 |
| **Total** | **601** | **100.0** |

*Source: Authors' Survey 2006*

**Table 2: Characteristics of Enterprises studied. N=601**

| Level | Frequency | Percentage |
|---|---|---|
| Never been to school | 48 | 8.0 |
| Basic | 268 | 44.6 |
| Secondary | 219 | 36.4 |
| Tertiary | 66 | 11.0 |
| Total | **601** | **100** |

*Source: Authors' Survey 2006*

**Table 3: Educational Background of Respondents.  N=601**

| Turnover | Frequency | Percentage |
|---|---|---|
| Up to GHS 500 | 238 | 39.6 |
| GHS 501-999 | 130 | 21.6 |
| GHS 1000 -1,999 | 84 | 14.0 |
| GHS 2000 and over | 105 | 17.5 |
| None Response | 44 | 7.3 |
| **Total** | **601** | **100.0** |

*Source: Authors' Survey 2006*

**Table 4: Weekly Turnover (Ghana Cedis)**

| Type | Frequency | Percentage |
|---|---|---|
| Raw materials | 240 | 32.4 |
| Components and parts | 76 | 10.3 |
| Finished goods | 395 | 53.3 |
| Accessories | 17 | 2.3 |
| Work in progress | 13 | 1.7 |
| **Total** | **741** | **100** |

*Source: Authors' Survey 2006*

**Table 5: Types of Inventory**

| Town | Frequency | Percentage |
|---|---|---|
| Accra | 373 | 48.3 |
| Cape Coast | 190 | 24.6 |
| Kumasi | 18 | 2.3 |
| Takoradi | 27 | 3.5 |
| Mankessim | 30 | 3.9 |
| Swedru | 56 | 7.2 |
| Assin Foso | 36 | 4.7 |
| Kasoa | 25 | 3.2 |
| Twifo Praso | 18 | 2.3 |
| **Total** | **773** | **100.0** |

*Source: Authors' Survey 2006*

**Table 6: Sources of purchasing inventory**

Asian Journal of Business and Management Sciences
Vol. 1 No. 4 [29-47]

| System | Frequency | Percent |
|---|---|---|
| Tally cards | 55 | 8.7 |
| Occasional Surprise Counts | 112 | 17.8 |
| Computer software | 4 | 0.6 |
| Notebooks | 318 | 50.4 |
| Non response | 142 | 22.5 |
| **Total** | **631** | **100.0** |

*Source: Authors' Survey 2006*

**Table 7: Inventory control system**

| Problem | Frequency | Percentage |
|---|---|---|
| Use of stock by family members | 93 | 14.5 |
| Low inventory | 156 | 24.4 |
| Pilfering | 391 | 61.1 |
| **Total** | **640** | **100** |

*Source: Authors' Survey 2006*

**Table 8: Problems encountered in managing inventory**

| Factors | Frequency | Percentage |
|---|---|---|
| Character of the customer | 267 | 44.4 |
| Nature of inventory | 4 | 0.7 |
| Salaried workers | 40 | 6.7 |
| Non Response | 274 | 45.6 |
| **Total** | **601** | **100.0** |

*Source: Authors' Survey 2006*

**Table 9: Factors considered before granting credit to customers**

| Problem | Frequency | Percent |
|---|---|---|
| High debtors figure | 74 | 10.6 |
| Family pressure | 61 | 8.7 |
| Funds tied up in stock | 70 | 10.0 |
| Slow movement of stock | 40 | 5.7 |
| Late payment by debtors | 50 | 7.2 |
| Inflation/price changes | 161 | 23.1 |
| High taxes | 50 | 7.2 |
| Sub Total | 506 | 72.5 |
| Non Response | 192 | 27.5 |
| **Total** | **698** | **100** |

*Source: Authors' Survey 2006*

**Table 10: Problems you have in managing your working capital**

| Type of Account | Frequency | Percentage |
|---|---|---|
| Savings only | 164 | 27.3 |
| Current only | 136 | 22.6 |
| Current and savings | 41 | 6.8 |
| Non Response | 260 | 43.3 |
| **Total** | **601** | **100** |

*Source: Authors' Survey 2006*

**Table 11: Type of Bank Accounts**

| Reason | Frequency | Percentage |
|---|---|---|
| Access loan from financial Institutions | 261 | 43.4 |
| Separate business money from personal money | 67 | 11.2 |
| Monitor the growth of the business | 93 | 15.5 |
| Investment in other Vehicles | 38 | 6.3 |
| Facilitates payment to suppliers | 61 | 10.1 |
| Facilitates debt collection | 81 | 13.5 |
| **Total** | **601** | **100.00** |

*Source: Authors' Survey 2006*

**Table 12: Reasons for having Bank Accounts**

| Institution | Frequency | Percentage |
|---|---|---|
| Commercial Banks | 46 | 13.5 |
| Savings and Loans Company | 112 | 32.9 |
| Rural Banks | 127 | 37.2 |
| Credit Unions | 56 | 16.4 |
| **Total** | **341** | **100.0** |

*Source: Authors' Survey 2006*

**Table 13: Financial Institutions that Businesses Operate With**

| Reason | Frequency | Percentage |
|---|---|---|
| Plough back into business | 140 | 29.5 |
| Operate *susu* savings | 114 | 24.1 |
| Just started the business | 39 | 8.2 |
| Inadequate capital | 76 | 16.1 |
| Because of minimum balance | 65 | 13.7 |
| Other | 40 | 8.4 |
| **Total** | **474** | **100.0** |

*Source: Authors' Survey 2006*

**Table 14: Reasons for not having Bank Account**

| Amount | Frequency | Percent | Valid percent | Cumulative percent |
|---|---|---|---|---|
| up to GHS 500 | 84 | 13.5 | 60.0 | 60.0 |
| GHS 501-1000 | 29 | 4.7 | 20.7 | 80.7 |
| GHS 1,001-1,500 | 16 | 2.6 | 4.3 | 85.0 |
| GHS 1,501-2,000 | 14 | 2.3 | 4.3 | 89.3 |
| above GHS2,000 | 15 | 2.4 | 10.7 | 100.0 |
| Sub-Total | 158 | 25.5 | 100.0 | |
| Non Response | 461 | 74.5 | | |
| **Total** | **619** | **100.0** | | |

*Source: Authors' Survey 2006*

**Table 15: Amount of Loan received**

| | Frequency | Percent | Valid Percent | Cumulative percent |
|---|---|---|---|---|
| Very easy | 12 | 2.0 | 7.6 | 7.6 |
| Easy | 80 | 13.3 | 50.6 | 58.2 |
| Difficult | 55 | 9.2 | 34.8 | 93.0 |
| Very difficult | 11 | 1.8 | 7.0 | 100.0 |
| Sub-Total | 158 | 26.3 | 100.0 | |
| Non Response | 443 | 73.7 | | |
| **Total** | **601** | **100.0** | | |

*Source: Authors' Survey 2006*

**Table 16: Ease of obtaining the loan**

| Level of service | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Very satisfied | 37 | 6.2 | 10.5 | 10.5 |
| Satisfied | 193 | 32.1 | 54.7 | 65.2 |
| Dissatisfied | 60 | 10.0 | 17.0 | 82.2 |
| No opinion | 63 | 10.5 | 17.8 | 100.0 |
| Total | 353 | 58.7 | 100.0 | |
| Non Response | 248 | 41.3 | | |
| **Total** | **601** | **100.0** | | |

*Source: Authors' Survey 2006*

**Table 17: Level of Satisfaction with Services provided by Financial Institutions**

| Document | Yes | percent | No | percent |
|---|---|---|---|---|
| Pay in slip | 95 | 18.8 | 506 | 84.2 |
| Cheque | 49 | 8.2 | 552 | 91.8 |
| Note book | 305 | 50.7 | 296 | 49.3 |
| Payment voucher | 21 | 3.5 | 580 | 96.5 |
| Cash book | 84 | 14.0 | 526 | 86.0 |
| Bank statement | 20 | 3.3 | 581 | 96.7 |

*Source: Authors' Survey 2006*

**Table 18: Records Kept on Cash Transaction**

| **Reason** | **Frequency** | **Percentage** |
|---|---|---|
| Have no idea | 104 | 16.4 |
| Can't prepare | 135 | 21.3 |
| Not applicable to my business | 94 | 14.8 |
| Not needed now | 200 | 31.6 |
| Have no time | 100 | 15.8 |
| **Total** | **633** | **100.0** |

*Source: Authors' Survey 2006*

**Table 19: Reasons for not preparing budgets**

| | Frequency | Percent |
|---|---|---|
| Personal savings | 401 | 60.0 |
| Trade credit | 134 | 20.1 |
| Loan from friends | 23 | 3.4 |
| Inheritance | 18 | 2.7 |
| Loan from relatives | 25 | 3.7 |
| Other | 67 | 10.0 |
| **Total** | **668** | **100** |

*Source: Authors' Survey 2006*

**Table 20: Initial sources of capital**

| | **Ever had** | | **Now have** | |
|---|---|---|---|---|
| Instrument | *Yes* | *No* | *Yes* | *No* |
| Treasury Bills | 11.3 | 88.7 | 9.5 | 90.5 |
| Fixed Deposit account | 9.0 | 91.0 | 8.2 | 91.8 |
| **Total** | | | | |

*Source: Authors' Survey 2006*

**Table 21: Short term investment (in percent)**

| Problem | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| High debtors figure | 74 | 10.6 | 18.1 | 54.8 |
| Family pressure | 61 | 8.7 | 14.9 | 69.7 |
| Funds tied up in stock | 70 | 10.0 | 8.1 | 77.8 |
| Slow movement of stock | 40 | 5.7 | 2.2 | 81.2 |
| Late payment by debtors | 50 | 7.2 | 1.5 | 82.6 |
| Inflation/price changes | 161 | 23.1 | 14.9 | 97.6 |
| High taxes | 50 | 7.2 | 2.4 | 100.0 |
| Sub Total | 506 | 72.5 | 100.0 | |
| Non Response | 192 | 27.5 | | |
| **Total** | **698** | **100** | | |

*Source: Authors' Survey 2006*

**Table 22: Problems you have in managing your working capital**