AN ASSESSMENT OF WORKING CAPITAL MANAGEMENT PRACTICES IN GHANA. A CASE STUDY OF SELECTED SUPERMARKETS IN KUMASI METROPOLIS.

By

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DECLARATION

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

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DEDICATION

I dedicate this Dissertation to my parents and siblings

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I am first and foremost grateful to the Almighty Allah for his mercies and strength He gave me to go through my Dissertation successfully. I wish to express my sincere gratitude and Allah‟s blessing to my supervisor, Dr. Daniel Domepher, who in spite of his busy schedules sacrifices his time to edit and guide my work and Prof. J. M Frimpong. I also appreciate the assistance of Mr. Samuel Nana Ameyaw and Mr. Anthony Darboh of Kumasi for their immense contribution to this work and all colleagues whose encouragement has inspired during my research, lastly to all who helped in diverse ways, I say Allah richly bless you all.

ABSTRACT

Purpose: The study seeks to add to existing literature the working capital management practices of selected supermarkets in Ghana. **Problem:** This was motivated by the fact that businesses have been noted to rely on banks, the stock market and equity capital. They give less attention to efficient working capital as a viable means of raising capital. They seem not to appreciate the feasibility of raising capital through efficient working capital management. Nonetheless, efficient working capital management is one of the major sources of raising capital, according to Nyamao et al (2012). **Methodology:** To achieve this, survey instrument was administered on 20 Accountants of leading supermarkets in Kumasi with a response rate of 80%. The data collected was processed by the capability of survey gizmo and Microsoft excel. **Findings:** The results showed that the supermarkets face liquidity challenges, low profitability, worse competitive position, increased funds tied up in working capital and finally lack of ability to unlock capital to finance growth. **Recommendations:** It is therefore recommended that the supermarkets reexamine the factors that determine their working capital so that they come up with best practices of working capital that can mitigate against the challenges. The working capital management policy need to be changed from informal to formal to enhance the chances of the supermarkets to be successful in their WCM

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CHAPTER ONE

GENERAL INTRODUCTION

1.1 Background to the Study

Efficient utilization of a company‟s current assets and liabilities, commonly known as working capital management demands careful consideration (Jose et al. 1996; Malmi and Ikäheimo 2003). Therefore, working capital management practices is essential with regard to its undeviating effect on firm liquidity (Chiou and Cheng 2006; Kim et al. 1998; Moss and Stine 1993; Opler et al. 1999; Schilling 1996). It must be noted that working capital management practices are of significance to all company sizes operating in both developed and up-and-coming markets, Abuzayed (2011). It is even of paramount significance to the companies operating in up-and-coming markets because of the fact that the failure rate among the companies are very high due to poor working capital management practices (Berryman, 1983; Dunn and Cheatham, 1993; Lazaridis and Tryfonidis,2006). Ghana falls within the above description. This means that Ghana will benefit from this study immensely. The topic under consideration is worth giving valuable attention because working capital policy choices and practices have important implications not only on corporate value but also the shareholders market value Abuzayed (2011). This position is collaborated by Deloof (2003) that working capital management practices have momentous impact on the profitability of businesses. Improving Working Capital Management practices is convincingly important for companies to endure the impacts of economic turbulence Reason (2008).

Efficient working capital management (WCM) practices is also necessary for companies during the blooming economic periods Lo (2005), for the reason that WCM practices is related to all aspect of managing current assets and current liabilities (Emery, Finnerty,

& Stowe, 2004; Hampton & Wagner, 1989; Hill & Sartoris, 1992; Scherr, 1989; Vander Weide & Maier, 1985). WCM practices is not only to immunize companies from financial turmoil but can be managed strategically to improve competitive position and profitability which is one of the main problems of retail companies in Kumasi Metropolis due to the influx of Chinese nationals on the retail market.

Two benefits are usually associated with working capital management practices and the retail companies are expected to benefit from it at the end of this research. First, working capital management practices is important with regard to its direct effect on firm liquidity (Chiou and Cheng 2006; Kim et al. 1998; Moss and Stine 1993; Opler et al. 1999; Schilling 1996). Second, working capital management practices is important for managing firm worth (Pass and Pike 1987; Smith 1980). Many companies put in significant amounts of cash in both accounts receivable and inventory, and frequently depend on short-term payables as a source of financing Deloof (2003). Therefore, the efficient use of a company‟s current assets and liabilities, generally referred to as working capital management, is a main task of day-to-day management practice and demands careful consideration (Jose et al. 1996; Malmi and Ikäheimo 2003) through well structured WCM practices.

Managing the financial requirements and operations of any company is very important to the management of that company, because it has an effect on both liquid assets and profits of the firm. Financial needs are mainly classified into two types of needs: working capital needs and fixed capital needs. That part of finance which enables an enterprise to perform its day-to-day operations is called working capital. We need to analyze short term assets and liabilities carefully in order to manage the firm‟s liquidity, management of working capital helps managers to manage their operation of the firm through making available cash to pay for short-term debt and the maturity of long term debt as well as expenses resulting for daily operations. So, an optimal level of working capital must be kept to trade off between return and risk (Ranjith, 2008). One of the integral components of the overall corporate strategy is to manage working capital efficiency. This needs to control short term obligation as well as decrease investment in liquid assets as much as possible in order to create shareholder value (Eljelly 2004). In practice, Narender, Menon and Shewtha, (2009) show that a firm may lose several profitable investment opportunities or suffer a liquidity problem if the working capital is too low or it is improperly managed.

While a number of previous research studies have examined the effects of the working capital on the profitability, efficiency, performance and earnings before interest and tax (EBIT). (e.g. Nobanee, 2009; Padachi, 2006; Rahman and Nasr, 2007; Ramachandran and Janakiraman, 2009; Shin and Soenen, 1998; Wu, 2001), this subject is still a very important issue because it affects the short term investment decisions; and managers can increase the value of the firm by reducing the working capital ratio to its optimal level (Rahman and Nasr 2007). Even though numerous studies about working capital management were undertaken, in both developed and developing countries; this study add to the text by examining the practices of the working capital management and its determinants in developing markets like Ghana. In specific it examines the variables that affect the working capital requirements in Ghanaian supermarkets, given that little attention was given to the operations of those supermarkets in the short term.

1.2 Problem Statement

One of the major functions of finance is to raise capital. Traditionally, finance managers and for that matter businesses have been noted to rely on banks, the stock market and equity capital. They give less attention to efficient working capital as a viable means of raising capital. They seem not to appreciate the feasibility of raising capital through efficient working capital management. Nonetheless, efficient working capital management is one of the main sources of raising capital, Nyamao et al (2012). Secondly, in a study by Nyamao et al (2012), it has been acknowledged that at least sixty percent of businesses fail by year four. They attribute working capital management as one of the causes of these failures. Thirdly, in a recent discussion with the managers of key supermarkets in Kumasi Metropolis, they complained that they were facing ever increasing pressure on cost and growing financing requirements as a result of intensified competition from foreign markets. There is pressure on their margins. The report was not different from the distributors of Nestle Ghana Ltd during their 2014 customer engagement forum. In identifying possible options on the part of these businesses, it is important not to focus exclusively on income and expense items but also to take efficient working capital management practices as an effective way to increase the value of the supermarkets and distributors, release liquid resources, improve fresh cash flow and reduction in both inventory and capital cost.

This partly explains the need for this study. Fourthly, although Ghana has a banking oriented financial system where capital markets are less developed and banks play an important role, nonetheless, how to secure financing from these banks have become very difficult in Ghana (Kwame, 2007; Adjei & Marfo-Yiadom, 2006).

Today, as part of credit risk management strategy by the banks, collateral in the form of real asset are required before credit is granted. This makes it more difficult to secure the requisite loan. It follows that unlocking of capital for strategic investments and permanent reduction in funds tied up in working capital through excellent working capital management practices cannot be under estimated.

1.3 General Objective of the research

The study is motivated by the desire to assess the working capital management practices of selected supermarkets in Ghana.

1.3.1 Specific Objectives of the Research

- To assess the working capital management practices that supermarkets in Kumasi employ to manage the various components of working capital.
- To examine the factors that influence the choice of WCM practices by the supermarkets in Kumasi metropolis?
- To establish the effectiveness of the WCM practices employed by the supermarkets in Kumasi.

1.4 Research Questions

- What working capital management practices do super markets in Kumasi employ to manage each of the components of working capital?
- What influence the choice of working capital management practices by the supermarkets companies in Kumasi metropolis?
- What is the effectiveness of the WCM practices employed the supermarkets in Kumasi.

1.5 Scope and methodology of the Study

The study will be conducted in Kumasi which is the capital of Ashanti region of Ghana using a questionnaire, and an unstructured interview. The work will be centered on working capital management practice which is one of the main branches of corporate finance with special emphasis on managerial practices. A sample size of 15 supermarkets will be used with an expected response rate of 80%. The study will be a cross-sectional study. The mixed method approach will be used and data collected will be analysed using the survey gizmo software and Microsoft Excel.

1.6 Justification of this Study

In the face of the difficulty to raise capital from the banks by the supermarkets in Kumasi, the study would ensure the unlocking of capital for strategic investments and permanent reduction in funds tied up in working capital through excellent working capital management practices by the supermarkets. Again, the study could be used as a guide to reduce pressure on cost and growing financing requirements of the supermarkets in Kumasi resulting from the intensified competition from foreign markets which has been worsened by the presence of the Chinese merchants in the retail market in Kumasi. The above opportunities to the supermarkets will ensure the release of liquid resources, improve fresh cash flow and reduction in both inventory and capital cost. Further, the study will provide a funnel in formulating useful strategies in working capital management practices within Ghanaian context. Additionally, this study will add to the body of knowledge in corporate finance by identifying the WCM practices that Ghanaian supermarkets employ to manage their working capital in the local setting. In the increasingly global economy, where information about managerial practices in corporate finance is important, the result of this research will as well serve policy makers, professional, researchers, students and managers to direct future research, reappraise current business practices, and provide necessary guidelines for new policies in the ongoing dynamic business environments.

1.7 Limitations of the Study

The key limitations of this study will be the constraints due to inadequate time and financial support. Collecting appropriate evidence is essential to analyze the data and various modifications lengthen the period meanwhile the period for the study is short. There is the need for caution due to the fact that our data were drawn from a single industry and even that the number of cases to be studied will be limited to only 15 supermarkets. Again, the study will rely on the perception of the employees and, does not include formal written sources received and documented by senior management.

Thus, this is a perceptual study but not objective study (based on organizational records). So the possibility of perceptual bias cannot be ruled out. Thus there is the possibility for some respondents to lie. Again, this is a cross-sectional study not longitudinal study. The cross-sectional nature of the data prevents strong inferences regarding causal sequences or changes over time. However, these limitations do not belie the quality of this research.

1.8 Organization of the Study

The study will be alienated into five main chapters. First chapter will deal with the introduction which comprises the background of the study, followed by problem statement, research questions, objectives of the research, justification of the study, and scope of the study as well as how the research is organized. Chapter two shall consider the review of existing literature of this research. This chapter will seek to examine the work of other authors of working capital management practices in other parts of the world. Specifically, it will seek to consider areas like concepts, definitions, and the practices related to the four dimensions of working capital which include cash and cash equivalents, account receivables, account payables and inventory. Chapter three of this work will look at the method of data collection, the data analysis procedures, population sampling, instruments used for the study and also the management of the instrument will be discussed. Presentation of the analysis of the data collected from the field is contained in chapter four.

Chapter five is going to present the summary of findings, conclusions and will end with recommendations based on the findings and further research directions.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the theoretical framework and literature review in which the study is based on. We provide a preamble to the working capital management and its apparatus. We will further, present literature review of earlier empirical studies. Finally, the nature and scope of working capital management, cash management practices, what influence the choice of working capital management practices by the supermarkets in Kumasi metropolis, based on previous studies and the development.

2.1 The Nature and Scope of Working Capital Management

According to (Ward, 2010) Working capital is the net investment as a result of a business in commissioning current assets (such as cash and bank, inventories, and trade receivable) and commissioning current liabilities (such as overdraft and trade payables). More over Working capital management is the managing of current resources as well as current liabilities (Creswell, 2003). The management of working capital is very crucial element in firm performance, (Paul and Boden, 2008). Traditionally, the study of finance looks at funds management in a direction which will ensure the achievement of a particular objective such as the maximization of returns on capital investment, (Finau, 2011). How such capital will be effectively utilized in financial management is key, in so doing the identifying of the business objective and its financial functions of working capital management is one determinant (Brigham & Ehrhardt, 2010; Chandra, 2008;

Keown, Martin, Petty, & Scott, 2002; D. Sharma, 2009).

Long-term investment and financial decisions-making, for the past 40years have been a major concern on theoretical developments Singh and Kumar, (2014). Much has not been invested in the aspect of short-term finance, in respect to working capital management (WCM). These are due to the norm by some firms considering working capital with little importance. However, the interest of managers and researchers was attracted to WCM, after the fall of corporate performance during and after 2008 crisis

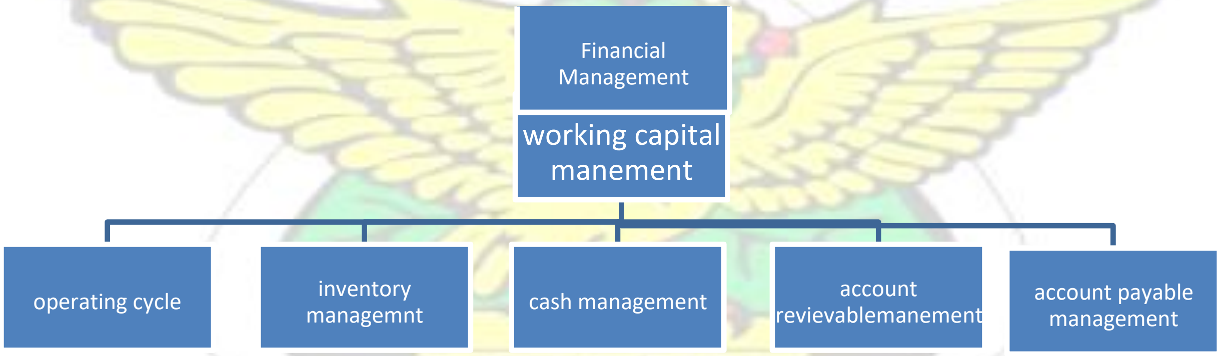
Singh and Kumar, (2014).

Among few researchers such as Deloof (2003), Falope and Ajilore (2009) and Gill et al.(2010) recognized the significant importance of working capital management to the profitability of a firm. Wang (2002) noted that aggressive liquidity management promotes operating performance and is typically associated with higher corporate values. Looking at the factors such as corporate viability, performance and sustainability and competitive the element of working capital cannot be disputed in the management of business, (Pieterson, 2012).

The level of management in reference to receivable, inventory and payables are key in the viability of business. According to (Home, 2000), working capital management is an important aspect of overall financial management, in such instant it of necessity to separate the working capital management from financial decisions and fundamental investment. The influence in the size and effectiveness"s of working capital is primary link to the working capital decisions by management, (Kaur, 2010). The financial health of an organization in respective of its size is affected in poor managerial decisions on working capital management. Good managerial decision is very important in the effective utilization of working capital as the level of investment of such capital is of a high proportion to the total assets employed, (Padachi, 2006).

According to (Pass and Pike, 1987), current assets and current liabilities are the key component of working capital. **Current assets include:** Inventory or stock (workinprogress, raw resources and completed merchandise waiting Sale and delivery); Accounts receivables or debtors (not paid bills for which the profit has previously been realized in the accounts); Trade credit (from suppliers); Short-term securities; and Cash in-hand; **Current liabilities include:** Payment due to trade creditors (mainly for raw materials and other supplies); Bank overdrafts; other short-term loans; and Outstanding tax, dividend and interest obligations. The point of entry of cash to a firm till its exit from a firm in payment signifies what is called cash management (Kytönen, 2004). This comprises the collection and disbursement of cash Gitman (2009). The intention of Working Capital Management (WCM) is to minimize the Cash Conversion Cycle (CCC) the sum of money tied up in the firm"s contemporary assets. It focuses on scheming account receivables and their assortment process, and savings made on cash while it duels in the firm.

Figure 2.1: The Concept of Working Capital Management



Source :(Mengesha, 2014),

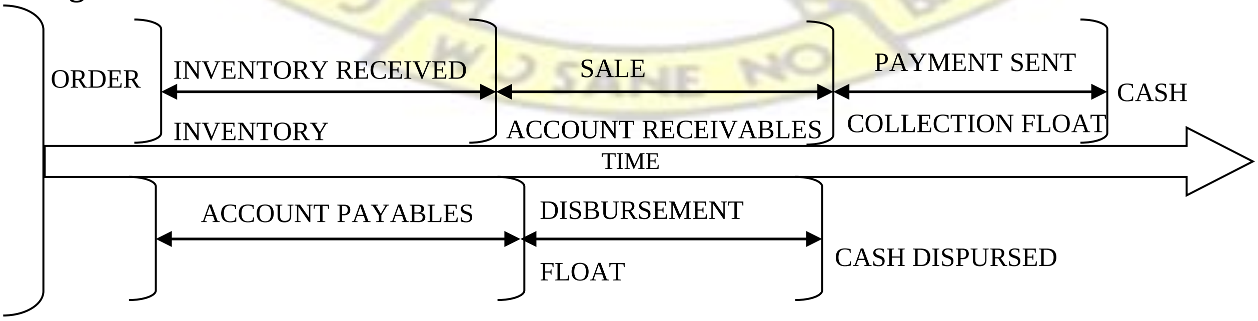
2.2 Cash Management Practices

Cash and treasury management seem to be an important function in most firms (kytönen, 2004). Accordingly, Cash management should maximize equity and holder return. Maximizing profit can be obtained from investing cash and keeping an appropriate level of liquidity (Ward, 2010). In such respect it is much expected to identify the role of financial transaction in cash management process as its add value to the firm, and has seen a direction of change in firms behavior (kytönen, 2004).

For a firm to experience a successful financial transaction costs, a tight cash management policy plays a key role. According to Briggs and Singh (2000), the ability of a firm holding small amount of cash depends upon its access to money and the capital market or a possible sale of assets (kytönen, 2004). In the order face of taught, a firm holding too much of cash than what is expected will lead to an opportunity cost of money. With the transactional model a firm‟s cash management policy tries to minimize the adverse effect of opportunity cost, thereby maximizing the profit on cash management (Briggs & Singh 2000).

Cash management forms an aspect of working capital management which encompasses the manner in which cash under goes different process and procedures of handling a firm‟s liquidity in it monitoring and planning, (Lamberg & Vålming, 2009). An effective monitory of cash management ensures an improved profit margins and higher earnings ratio which in turn can lead to higher profitability, (Larsson & Hammarlund, 2005). The figure below gives an over view of how cash is converted from its inflow to an outflow of a firm. In such regards the shorter cash convention the better for the company (Maness & Zietlow, 2005). Such changes in the time line critically depend on management in their critical understudy of its timeline.

Figure 2.2 Conversions of Cash from the Inflow to the Outflow



Source: (Maness & Zietlow, 2005)

With reference to Larsson (2000) for firms to ensure a control that can adjust its financial routine the level of efficiency in its value chain can be improved. One among such control which has a great potential but often neglected is the management of liquid capital, or cash management by organizational management. Larsson (2000) in looking at the perspective of cash management classified it as "theories and methods for handling liquid capital". Working capital management is evolving in a cycle around certain factors of control, which serve as an attribute and benchmark of determinant. Such factors comprises of four principal elements: trade debtors, trade creditors, stock, and incoming cash, among all debtors are vital in the aspect of cash conversion cycle; Wilson (2008) is evident that the causes of business failures are due to poor working capital management, with late payment being an anchor.

With reference to earlier discussion, pragmatically, studies have tended to bring into play financial reports. For case in point, Raheman and Nasr (2007) investigated the bang of average compilation period, inventory return in days, and average disbursement phase and cash alteration cycle on the net operating profitability of firms. Literally finance is stuffed with studies on working capital management (Filbeck and Krueger, 2005; Lazaridis and Tryfonidis, 2006; Padachi, 2006; Raheman and Nasr, 2007; Teruel and Solano, 2007). Such studies appear to comprise a harmony on conceptualizing working capital management as the setting up and management of payables, receivables, inventory, and cash, is sort to maximize profitability and eradicate the threat of illiquidity.

2.2.1 The Five Cs of Credit as a Tool for Credit Analysis.

The point is that an organization granting credit runs the risk of not receiving payment of goods or services supplied. Hence maximum vigilance should be taken over the **kind of customers** to whom credit facilities are grant to. It is in view of this that, credit management practitioners consider the **concept of 'five Cs of credit'** very useful checklist and vital in appraising the request from a customer for supply on credit. An article titled "Who is the Customer", (2011) and Zaugg, (2003) discuss the five C's of credit which are collateral, conditions, capital, capacity, and character. It states that the five C's of credit provide credit managers with the needed framework for carrying out a controlled investigation process in order to deliver a credit evaluation that considers each component of credit risk related to credit approval. Meanwhile, it considers the other C's of credit which are competition, computers, and common sense. Once a customer is considered creditworthy, then credit limits can be ascertained and subsequent procedures put down to ensure that these limits and procedures are complied with accordingly. Jim (2003) argues that there are 7Cs of credit. He therefore added - always keep your **C**ompany business credit policy in mind- as the 6th and -look at the first six **CS** and do a final cost-benefit analysis before granting the credit.

2.3 Account Receivable (AR) Management Practices

According to Atrill (2006) working capital represents a net venture in short term assets. These resources which are continually flowing (circulating) into and out of the business are fundamental for day-to day operations. When firm"s sells merchandise on credit terms account receivables are created. The analysis of such structure is very key because firm transactions are track through account receivables which signifies a key attention to such structure, (Wendorf May 2011). Account receivables are best manage through an effective cash collection system and credit management as the accrual of account receivables occurs as a result of good on credit (ADU,2013). This are encountered through decisions such as sale, credit analysis and decision, among these factors ability to control debt will be achieved when a collection policy is made on them.

In the opinion of Brealey et al (2006), a strong policy can positively affect the revenue of a firm but can create a conflict between sale and collection. Therefore firm must control and manage every credit administration within their company, or give it out to a credit supervisor who serves as a specialist agent of credit monitoring, *(Wendorf ,2011).* Notwithstanding the fact that firms has the choice of internally seeing to the management of credit extension but also get in touch with relationship between the credit extender and buyer the more probable is that account management is to be outsource (Wendorf , 2011). But in which direction it might go, the system of a strategic credit policy to successful manage credit account is of much concern. According to (William, 2014) It must always be observed that account receivables are arise through credit sales, which is recorded by the seller as account receivables and by the buyer as account payables, notwithstanding, it as an interim debt.

2.3.1 Determinants of Account Receivable Management Practices

Developing a strong accounts receivable (AR) department is vital for business success. A lot of organizations are struggling to identify success surrounding the entire 'credit to cash" cycle. Numerous businesses work to make their Account Receivables departments faster at collections or more cost effective, assuming that these steps are the keys to a best practice solution. Burnett (2005) makes it clear that the "faster and cheaper" concept for Account Receivables management best practices is a partial thought process. There is also no "one size fits all" blue print for a best practice solution. What works for one industry or company is not guaranteed to be economical or effective for another. A key to a successive new approach to internal AR challenges is to examine your internal structure- across departmental lines and the landscape of your current customers along with some core guidelines and principals. This will provide a base for a new best practice process. In essence, what Burnett (2005) is trying to put across is that, to produce an effective solution for collections and dispute management, companies must address their inimitable challenges. Companies need not seek out for that one best practice blueprint that solves every issue. In implementing a new solution and process, may it be a new software or structure: you will want to keep an eye on flexibility with workflow, efficiency approaches, dexterity with analysis and automating workflow and communications. You will certainly have a set of your own custom best practices that fit your customer base, your organization and your industry.

2.3.2 Achieving Excellence in Managing Accounts Receivable

Achieving excellence in managing accounts receivable is critical to realizing and optimizing the profit (Salek, 2006). This approach, by default, seeks to minimize the investment in receivable management and cost of the asset, while not constricting sales too much. In the process of implementing best practices in receivables management, Salek. (2006) has discovered that these three keys for unlocking greater profitability need to be present: 1. **Executive Portfolio Strategy:** A portfolio strategy is a definition of how to manage a receivables asset. Just as different customer segments require customized marketing approaches, various collection approaches are needed for distinct categories of customers. For instance, categories to be managed differently are government vs. private sector, export vs. domestic and national accounts vs. small accounts. This will keep cash flowing and minimize bad debt exposure. **2. Dispute Resolution Process:** A dispute is any reason (other than cash constraints) for a customer to delay or take a "deduction" from an invoice. Disputes generally arise from invoicing the wrong price or quantity, omitting purchase order numbers or product or service quality issues. Experience by Salek. (2006) shows that over half of receivables greater than 30 days past due are disputed, so the speed in which disputes are researched and resolved with the customer can directly decrease the number of past-due receivables. 3. **Accurate Order Fulfillment and Invoicing:** The receivables asset reflects the quality of the entire revenue cycle operation. If an error is made in taking an order, fulfilling it, invoicing it or applying the customer payment, or if the customer is dissatisfied with the product or service, it will manifest itself as a past due or short payment in the receivables ledger. The quality of the receivables asset is an excellent barometer of customer service. Accurate order fulfillment and invoicing is the corollary of an effective, rapid dispute resolution process. If all orders are fulfilled correctly and billed accurately, the customer has no good reason to delay or short-pay an invoice, and disputes should be prevented.

2.4 Accounts Payable (AP) Management Practices

Accounts payable is money owed by a business to its suppliers (trade creditors) shown as a current (short-term) liability on a company‟s balance sheet, (*Anonymous*[2]*, 2012).* Payables are often categorized as Trade Payables, payables for the purchase of physical goods that are recorded in Inventory, and Expense Payables, payables for the purchase of goods or services that are expensed. Common examples of Expense Payables are advertising, travel, entertainment, office supplies and utilities.

Other examples of accounts payable include: Sales taxes payable - sales taxes collected from customers that must be paid to the state department of revenue. Payroll taxes payable - amounts withheld from employee pay for income taxes and employment taxes, and amounts owed by the employer for that payroll and which must be paid to the IRS for withholding. Loans payable and mortgages payable - total amounts due, and amounts currently due for loans and mortgages. Account payable is a form of credit that suppliers put forward to their clients by allowing them to reimburse for a product or service after it has already been received.

In ensuring a system of prompt payment or a discount and late payment for fees there are five best ways such practices could be handled. **Commitment**: For such practices of prompt payment discount and late payment fees there should be a total commitment of all management and all key stake holders for such policy to hold. The sharing of such commitment must be very proactive at the level of senior staffs and which also need to affect every functional activity within the company especially of sales, customer service and management in general, (Salek, 2005). **Automation**: This enables transaction of determining and handling late payment fees and unearned prompt payment discount which take a great deal of staff time due its high volume, low value transactions. (Salek, 2005).

The automation of such system enables such transactions handled easily in such development activities such as the following will be fast track easily: a) Notification to customers b) Transaction write-off or adjustment. **Giving a stipulated grace period for due dates**: Is of a great challenge to enforce charges for payment that is few days late, therefore there is the need to give a stipulated grace period which will still be considered on time for the purpose of accessing late payment fees. (Salek, 2005). **Using late payment fees and / or prompt payment discount as a collection tool:** This help in a proactive customer contact as it alert customers service of a proactive call. This call prompts the customer and alerting him of an opportunity to save money (Salek, 2005). Recording late payment fees to a suspense account, in addition to prompt payment discount, instead of directly to interest income or revenue (Salek, 2005).

Schaeffer, (2007), reminds us that accounts payable consists of both cash management/cash flow components and there are several techniques accounts payable practitioners can employ to improve their firm‟s cash flow. She brings to attention the following tactics.

- Take all early-payment discount presented by your suppliers. Unless interest rates increase significantly, this is a no-lose proposition for all companies, even those in a borrowing position. Taking the discount on 2/10 net 30 terms translates into a 36 percent rate of return, something few organizations are earning today.
- Do everything feasible to reduce the number of priority (rush) checks
- Don‟t forget to occasionally ask for statements from vendors, insisting that the statements show all activity, including open credits.
- Payments should be planned according to the payment terms negotiated with the supplier allowing your organization to sustain good relations with your vendors and not find put on credit hold.
- Stretching payments also known to by some as payment timing, is an issue that has both hard-core proponents as well as those who fervently object to the practice. You may resort to this tactics when undergoing temporary cash crunch. While some perceive payment stretching almost as breaking a promise to their suppliers, others see it as a normal business practice. In a survey gathered by Schaeffer, (2007) respondent never stretch payments if not forced to do so by cash flow considerations.

These are what the respondents said:

- We do not stretch payments: 42.5 percent.
- We stretch payments in periods of tight cash flow but instantaneously revert to paying at or near terms when cash is not in short supply: 20 percent.

- We have in place a formal (monitored) payment stretching policy as part of our cash management policy: 15 percent.
- We also have an informal payment stretching policy in place: 15 percent.
- We stretch payments only when we desire to window-dress the financial statements: 7.5 percent.
- We stretch payments in periods of tight cash and to window-dress financial statements: 0 percent.
- Payment stretching is a legally recognized cash management initiative: 13.64 percent.
- Stretching payments is a requisite in a competitive environment because everyone is doing it: 10.61 percent.
- It is okay to stretch payments if you want to hold on to cash longer, even if there are no cash flow issues: 7.58 percent.
- It is okay to stretch payments as a cash management initiative without informing suppliers: 4.55 percent
- If the vendor notices an issue with a particular invoice, it is okay to stretch the payment until the issue is resolved. If, however, the invoice is legitimate as well as accurate, it is wrong to stretch the payment.
- I can appreciate stretching payments, even though I don‟t agree with the practice. Vendors need their money to pay their vendors and on down the line. If you agree with the 30-day terms, then that‟s when you should pay.
- I desire to pay my suppliers within terms, but am however instructed by management that I must cut back on how much I pay out daily, because it is getting close to the end of the quarter

Interestingly, while almost two-thirds either never stretch or only do so if they are forced by cash flow considerations, only 18 percent consider the practice to be morally wrong. On the other hand, only 4.55 percent think it is acceptable to stretch as a cash management initiative without informing suppliers. Various laws provide for automatic late-payment interest payments. This condition makes stretch payment unattractive. It was established without doubt that, this is a matter where no consensus exists within the industry. Amusingly payment timing does not appear to be an industry practice, and even those who use it think informing the supplier is a crucial element of a successful program.

2.5 Inventory Management Practices

According to (Arsham, 2006) inventory management is the procedure for the minimization of the entire cost of inventory. This means keeping the general costs linked with having inventory as little as possible devoid of creating troubles. Stock and inventory are often used interchangeably to attribute to the same thing (wild, 2002), but as it stand when inventory management is mentioned there is a slight differences with stock: the scope of inventory management is quite broad than stocks: as its define as management of materials either in motion and at rest, (coyle et al, 2003). Oxford

Learner‟s Dictionary defines inventory as the catalog of merchandise and materials that are held accessible in stock by a business. A company‟s working capital consists of its reserves in current assets, which includes short-term assets cash and bank balance, inventories, market securities and receivables.

According to Wild (2002) inventory controls organizes the convenience of items to the customers. It coordinates the purchasing, manufacturing and distribution purpose to congregate the marketing needs. This responsibility includes make available of current sale items, new products, consumables: spare parts, obsolete items and all other supplies. For effective inventory management practices, quantity to be ordered and time or period of order, are two key factors which needs to be considered (Adu, 2013). Therefore the questions of how much and when it should be ordered. The economic order quantity model as a determinant of optimal inventory level, which takes into account total cost, inventory carrying and shortage cost (William 2014).

In reference to Clodfelter (2003), inventory control system offer succeeding benefits to sales. But not for inventory control events in place, stores can turn out to be overstocked or under stocked. According to (Reid & sanders, 2007) there are two goals that inventory management practice seek; first a good practice of inventory management must ensure the availability of goods. Secondly not all items can be held in stock against every cost. In this regards emphasizing the pertinence of the subject matter, Gourdin (2001) remarks that inventory is one spot of logistics that has received enormous deal of management‟s awareness over the years. Therefore Executives currently realize that holding extreme stocks is purely too costly.

2.5.1 Purpose of an Inventory Control System

The usual objective of an inventory control system can be summarized as providing an agreed level of customer service for the cheapest price. There are three fundamental and interrelated aspects in an inventory control system: forecasting future demand, deciding when and how much to re-order and deciding where stocks should be held, (Michael, Lawrence, 1977) **Forecasting:** Practical experience from (Michael & Lawrence ,1977) has shown that computer aided forecasting which includes routine management review and adjustment provides a better, more reliable and more consistent forecast than either a statistical or a subjective forecast alone. All products must be forecasted statistically based on its marketing, product and customer experience and knowledge**.**

Re-Order Point: The factors that go into re-order decision include forecast accuracy, customer service level desired, distribution of lead time for manufacturing re-orders and distribution of lead time for branch re-orders. All these factors are product dependent. The re-order quantity is calculated on an approximate basis using the simple Economic Order Quantity (EOQ) model. While it was recognized in the work of Michael J. Lawrence M.J. (1977) that this approach would lead theoretically to a too low re-order quantity when compared to an "exact" solution, the lack of accuracy of the re-order cost estimate made a more refined computational procedure seem a waste of time. Wider readings seem to point out that inventory management practices seeks to improve forecasting accuracy and inventory re-order point and re-order quantity calculations; all in attempt to increase customer service level, reduce stock and trim down cost.

The economic order quantity (EOQ) according to Rabinovich E. (2002) is a recognized and long-established method for determining the most favorable reorder quantity. Harmonizing total ordering costs with total carrying costs, its applicability has become suspect over time with the implementation of mechanized ordering systems. Since most automated systems, such as internet-based or electronic data interchange systems, are intended to coerce the cost of placing an order to zero, a result of their implementation should be an optimal order quantity approaching one. As a result, EOQ usage may be rarely found in practice as one-for-one and lot-for-lot replenishment systems are used instead. Based on this logic, a justifiable question is whether the EOQ model has become outmoded.

2.6 The Choice of Working Capital Management Practices.

In reference to Horne (2000) functioning capital management is the organization of current assets in the name of money, saleable securities, receivables, inventories. Block and Hirt

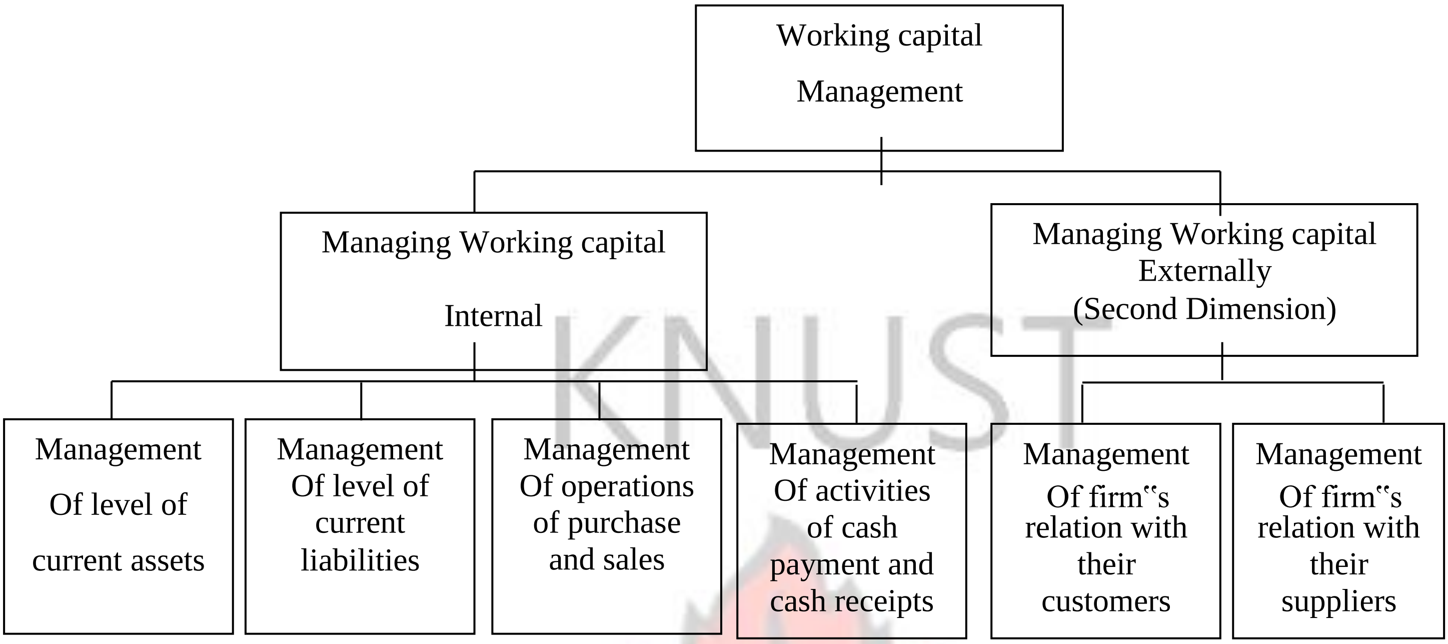
(1992) are of the analysis that, working capital management involves the financing and management of the current assets of the organization. The concern in the management of firms working capital take a look at their short term capital, which is the capital firm use on a daily basis for their operational activities. Such capital compasses „ current assets and current liabilities‟,*(Rimo & Panbunyuen, 2010)*. According to (JengRen, et al, 2006), for the ability of a firm to ensure its well being in the market in respect to liquidity depends on the choice of working capital practices. Working capital is seen as the net working capital, which is defined as the current assets less current liabilities (Hillier et al., 2010).

Net working capital = Current assets – current liabilities.

According to Baig (2009), the choice of a working capital management practices can be viewed in two dimensional perspectives which take a look at the internal and external perspective.

The internal perspective deals with the management of investment in relation to current assets and short-term financing in addition to operational functions that interferes with the balance of current assets and liabilities Baig (2009). This ensures the maximization of benefits and minimizing of the working capital assets cost with short term financing.

Figure 2.3 Dimensional approach of working capital management



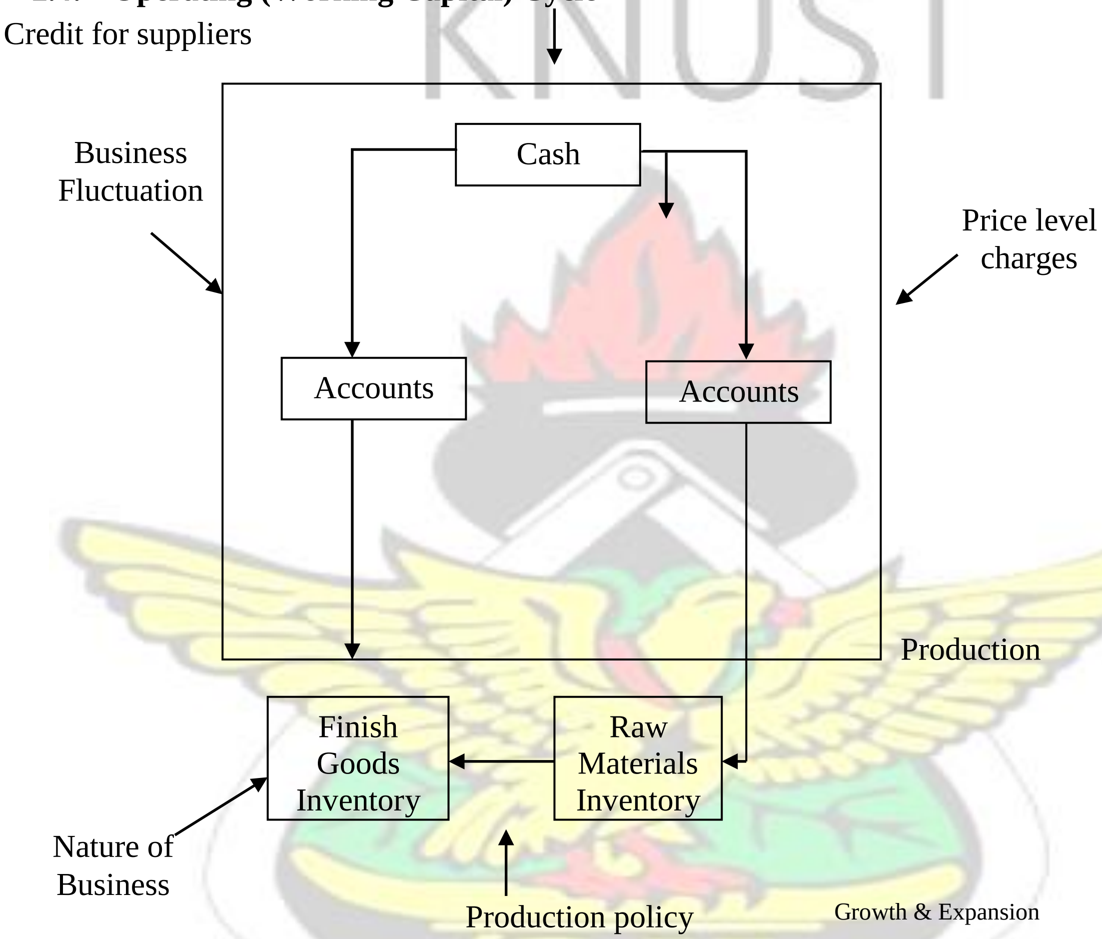
The external management on the other hand deals with firm‟s supplier and corporation with customers This in a bid to minimize cost related to firms inter relations transactions, in an effort a synergy is created on firm value, by taking care of external generated problems Baig (2009) .

An effort in attainment of that is achieved by ensuring a reduction in cost related to firms-inter transactions, thereby creating firm value in a win-win condition Baig (2009).

2.7. What influences the choice of working capital management practices? For effective and efficient management of firms, managers are encourage to reflect on various factors in decision making processes, for the reason that the more unstable market conditions are, the more resources and the bigger harmonization is required to manage WCM components (Hill, Kelly, & Highfield, 2010). Accordingly this section aims to build up an understanding from the Literature of factors that have predisposed current WCM practices.

The choice of management practices in the management of the working capital of firm is dependable on the operational cycles it undergoes in a firms daily activity. (Pieterson 2012) identifies such cycle as working capital cycle‟s as the various element are interrelated

2.4: Operating (Working Capital) Cycle



Source: (Pieterson 2012)

In perspective of Working capital cycle furthermore recognized as operating cycle, by means of recent alteration to cash, renovation cycle (Pieterson 2012) reflects the net time interval connecting distinct cash expenditure on a firm‟s acquisition of production resources and the „2ultimate recovery of cash receipts from product sales. Khan& Jain, (2007) furthermore state thl2at the operating cycle be capable understood to be the empathy of the necessity for working capital.

Cash gets transformed and addicted to inventory which includes procure of raw materials, alteration of raw materials into work-in-progress, completed goods and at last the convey of goods to stock at the conclusion of the mechanized procedure (Pieterson 2012). In stage two of the sequence, the inventory is transformed into receivables as credit sales are prepared to clientele. Organizations which do not put up for sale on credit clearly do not have segmented two of the operating cycle (Pieterson 2012) . Last of all, phase three represents the period when receivables are composed. Such phase finalizes the working cycle and consequently, such firms have to move from hard cash to inventory, to receivables and to hard cash again.

According to Banos-Caballero et al. (2010), recognized factors with the purpose of influencing firms‟ working capital policy and Hill et al. (2010) provide with five more determinants. Firstly it recognized determinants by means of earlier writings and after that it experimented them by way of sample data. Chiou & Cheng (2006) have also made same kind of study. The article studying primarily dealings involving working capital management and profitability have also relations among transactions of working capital management and a number of determinants of firms studied:

Manufacturing Cycle: requirements of working capital is in straight proportion to duration of manufacturing cycle i.e. longer the procedure period of manufacture, outsized is the quantity of working capital requests (Virendra, 2007). The longer manufacturing time blocks money in acquiring raw material and supplementary suppliers, labor and service costs for long phase sooner than the over and done with product is finally obtained. **Contribution Margin:** In reference to Hill et al. (2010) a larger contribution margin in both units sold contribute to an improved working capital; nevertheless they did not discover pragmatic support for this in their study. **Ability to create Internal Resources:**

Result propose that firms with a superior capacity to produce internal resources, include high current asset levels, this possibly will subsist because of the lower cost of finances invest in working capital for these firms generate by immense cash flows. (Banos-Caballero et al.2010) Chiou & Cheng (2006) establish those firms contain well-organized working capital management while working cash flow increase. Hill et al. (2010) and Banos-Caballero etal. (2010) initiate that, firms by means of better operating cash flows deal with working capital more predictably than those with inverse result. **Industry:** Manufacturing Trade credit conditions lean to have extensive variation among industries but little dissimilarity within industries. Moreover there are differences in the levels of the books of payable and accounts involving industries. A pragmatic study institute huge differences amid industries, (BanosCaballero et al, 2010). In addition Salawu (2006) establish momentous differences among industries. **Sales unpredictability:** Hill et al. (2010) establish that sales unpredictability has a downbeat relative in the direction of the sum of working capital. Such conclude that managers act in response to larger sales volatility via forceful working capital management.

Production Policy: The requests of working capital depend upon the manufacture guidelines followed by the business unit. If a firm follows stable manufacture policy, yet when order is irregular by accumulating inventories throughout stock phase with a observation to meet high request throughout the crest season it will entail higher working capital (Virendra, 2007). Even a firm may accept the policy of varying its production program in harmony with the different demand. Thus, manufacture policies may be different from firm to firm, depending upon the circumstances. Accordingly the requirements for working capital will also vary. **Firm Size:** The price tag for credit by and large is bigger for minor firms. This results that small firms hold more forceful working capital policies than large firms. Big firms with improved opportunity into capital markets expand more credit in trading and minor firms use extra credit from Suppliers. (Banos-Caballero et al. 2010) Chiou & Cheng (2006) and Hill et al. (2010) establish that firm size is optimistically connected to the total of working capital. Banos- Caballero et al.

(2010) bring into being no relation but their sample limited to only small and medium enterprises (SMEs). **Fixed Financial Assets**: Relation of fixed financial resources to whole assets has a depressing relation to the cash conversion cycle among three studies (Deloof 2003, Dong&Su 2010, Mathuva 2010). It perchance be argued that big firms possibly will archive benefits of scale although it is not being experience, possibly explained by what Banos-Caballero et al. (2010) noted.

Enlargement opportunity: Literal findings advocate firms upsurge inventories when they anticipate sales to increase. Furthermore high enlargement firms are liable to use trade credit more as a form of financing. Again firms might give extra payment time to their customers to increase their sales in period of low demand. (Banos-Caballero et al. 2010) Hill et al. (2010) establish a downbeat relation between sales expansion and the total of working capital which was also result of Banos-Caballero et al. (2010). Sales expansion has a negative relative to the cash conversion cycle in two studies (Deloof 2003, Garcia-Teruel&Martinez-Solano 2007) and a optimistic relation in two studies (Amir Shah&Sana 2006, Falope&Ajilore 2009) . **Other Factors:** Certain other factors such as operating efficiency, management ability, irregular supply, import policy, assets structure, importance of labor, banking facilities etc moreover affects the working capital needs of a business.

In a more perspective view factors that influences the choice of working capital practice according to (Darun, 2011) can be group into internal and external factors.

Table 2.1: Factors that influences the choice of working capital practice

Factors	Effect On WCM	References
External Factors	• Political circumstances	Carey, 1949; Ketchum, 1942, 1943)
	• Economic and business atmosphere	(Ben-Horim & Levy, 1983; Claessens, etal., 2000)
	• Industrial effects	(Filbeck & Krueger, 2005; Raheman, Qayyum, & Afza, 2011)
	• Legislation	(Peel, et al., 2000)
	• Competition	(Filbeck & Krueger, 2005)
	• Financing/interest • rates/regulations	(Cocheo, 2004; Strischek, 2001)
Internal Factors	Managerial practice / working capital policy	(Boisjoly & Izzo, 2009; Deloof, 2003; García-Teruel & Martínez-Solano, 2007; Hill, et al., 2010; Johnson & Soenen, 200; Lazaridis & Tryfonidis, 2006; Sathya moorthi, 2002)
	• Performance measurement system	(Srisvastava, 2004)
	• Information technology	(Fairchild, 2005; Jaiswal & Kaushik,2005)
	• Employees" behaviors	(Krishna, Dmitri, & Victor, 1993)
	• Investment policy	(Appuhami, 2009;)
	• Production and Supply Chain management	(Bartezzaghi, et al., 1992)
	• Shareholders wealth	(Filbeck, Krueger, & Preece, 2007)
	• Inventory management	(Raman & Kim, 2002; Yang, et al., 2005)
	• Payable management	(Rafuse, 1996)
	• Credit policy	(Ooghe, 1998;)
	• Employees financial knowledge	(Cheatham & Cheatham, 1993)

Sourc: (Daron, 2011)

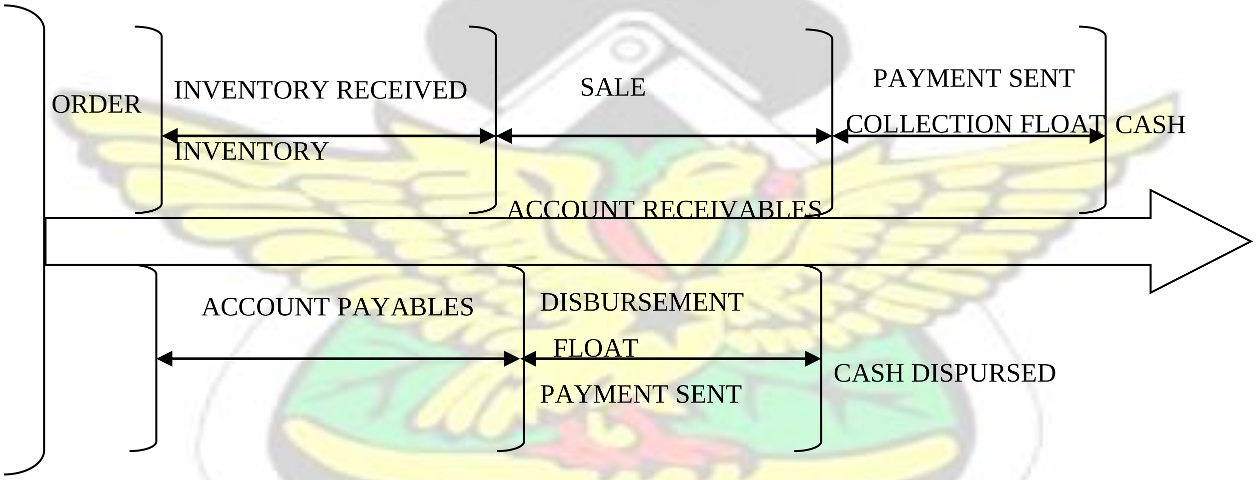
2.8 Effectiveness of the WCM Practices

Accordingly Liquidity and profitability are the two very important aspects of corporate business existence (Panwala, 2009). Therefore Liquidity measures the capacity of a company to meet all the growing obligations. The efficient management of working capital is the most crucial factor in ensuring the survival, liquidity, solvency and profitability of a business organization, (Samuel, 2011). As mentioned earlier, liquidity is troubled with the capability of a company to make happy its financial obligations on a day to day basis (Moyer, et al., 2009). Moreover, two differing notions are recognized within this period, believed to contribute to effective WCM; that is financial viewpoint and organizational context.

More emphatically efficient working capital management involves preparation and scheming current assets and current liabilities to put off the hazard of a company"s incapability to meet due short period obligations on the one hand, and to keep away from unnecessary venture in these assets on the other hand (Eljelly, 2004). Working resources is personally connected with day-to-day operations of a business. Thus, the managing of working capital becomes compulsory (Virendra C., 2007). In wide-ranging practice it refers to the surplus of current assets over current liabilities. Working capital management consequently, deal with the tribulations which happen to administer the current assets, current liabilities and the inter relationship exists sandwiched between them.

The consequence of working capital to the achievement of any business cannot be overemphasized. One of the serious predicaments faced by the majority monetary managers is how to effectively and efficiently manage working capital to the advantage of their organization (Samuel, 2011). This is because working capital comprises a number of different items and its administration is complicated since these are often linked. Therefore changing one item may impact unfavorably upon other areas of the business.

A acceptable level of working capital is to be maintained is the basic goal of working capital management since both circumstances is Bad for a business unit i.e. insufficient working capital and excessive working capital Jani, (Virendra C., 2007). Insufficient working capital possibly will show the way the firm to liquidation and extreme working capital implies idle money which earn more income for the business. Operational capital management policies of a firm have a great consequence on its profitability, liquidity and structure heath of the organization, (Jani, Virendra C., 2007). More over working capital has been knowledge as the consequence of the time lag between the disbursement for purchasing raw materials and the collection from the sale of the complete good (Dong and Su, 2010). Consequently, the Cash Conversion Cycle is a prevailing measure for assessing how well a company is running its working capital.



Source: (Maness & Zietlow, 2005)

More prevailing the longer this time insulate the superior the venture in working capital (Deloof, 2003). Shorter cash conversion cycle possibly will be connected to soaring profitability since the longer the cash conversion cycle the better it"s necessitate for expensive external financing. Consequently, by dipping the period that cash is tied up in working capital, company can function more efficiently (Nobanee and AlHajjar, 2009).

In that respect Cash conversion cycle can be shortened by reducing the inventory conversion period by means of processing and selling merchandise further quickly; or by lessening the receivables compilation phase through speeding up collections; or by increasing the payables deferral period through slowing down payments to suppliers

(Nobanee, 2009). This increases companies‟ efficiency of internal operations and consequences on higher profitability and higher market value.

2.9 Empirical studies on the effect of working capital management practices on the profitability of Spanish supermarkets

Working capital management is particularly important in the case of supermarkets. Most of these supermarkets‟ assets are in the form of current assets. Also, current liabilities are one of their main sources of external finance. In this context, the objective of **Pedro et al, (2007)** has been to provide empirical evidence about the effects of working capital management practices on the profitability of a sample of small and medium-sized firms. To this end, a sample of Spanish supermarkets was used to conduct a study with panel data for supermarkets. Data on a panel of 8,872 SMEs was collected, covering the period from 1996 to 2002. The results were similar to those found in previous studies that focused on large firms (Jose et al., 1996; Shin and Soenen, 1998; Wang, 2002; Deloof, 2003), and the analyses carried out confirm the important role of working capital management practices in value generation in supermarkets. There was a significant negative relation between supermarkets‟ profitability and the number of days accounts receivable and days of inventory. They could not, however, confirm that the number of days accounts payable affects supermarkets‟ return on assets, as this relation loses significance when they tried to control for possible endogeneity problems. Finally, supermarkets have to be concerned with working capital management practices because they can also create value by reducing their cash conversion cycle to a minimum, as far as that is reasonable.

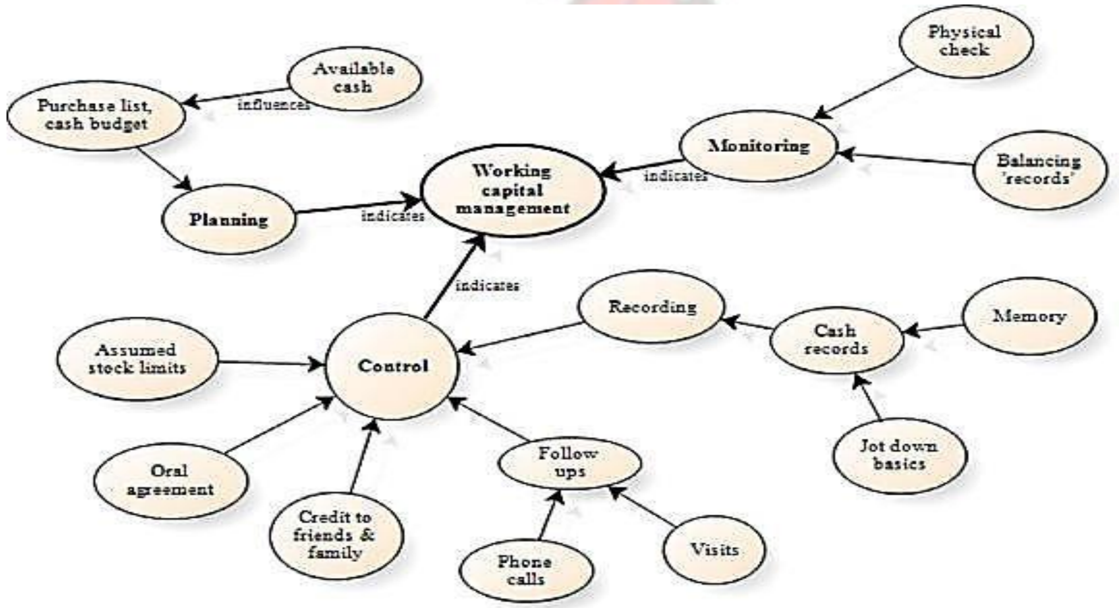
2.10 The relationship between working capital management and financial performance of supermarkets in Nairobi County

The study sought to establish the relationship between working capital management practices and financial performance of supermarkets in Nairobi County. The study sought to establish the relationship between working capital management practices and financial performance of supermarkets in Nairobi County. Working capital management practices was measured using three variables namely inventory collection period, average collection period, and accounts payable days. Two control variables were used namely leverage and fixed assets turnover. Secondary data from the financial statements of the supermarkets was collected in this regard. Descriptive analysis, correlation analysis and regression analysis were conducted to achieve the objective of the study. The descriptive results showed that the mean ROA was 0.107 with a standard deviation of 0.097, the mean inventory collection period was 38.27 days with a standard deviation of 30.03 days, the mean average collection period was 10.36 days with a standard deviation of 3.63 days, the mean accounts payable days was 66.96 days with a standard deviation of 28.03 days, the mean leverage was 0.785 with a standard deviation of 0.34, and the mean fixed assets turnover was 15.73 with a standard deviation of 17.42.

2.11 Working capital management practices of supermarkets in an emerging economy

In a study conducted by Orobia et al (2013), supermarkets need to plan and control inventory, receivables, payables and cash in order to eliminate the risk of illiquidity and maximize profitability. This study established that supermarkets prepare purchase plans and cash flow forecasts. This provides evidence of the use of planning tools in managing working capital. Their finding was consistent with Nguyen‟s (2001) study which revealed that majority of supermarkets (80 percent) prepared inventory and cash plans. Notably, the planning appears to be very basic. By their nature and size, such supermarkets do not require the conventional budgeting techniques and process. They were mainly concerned with cash flows and therefore tend to attach importance to cash flow plans. With regards to setting the minimum inventory limits, their results indicated that this was determined using assumed/imaginary stock limits. Such supermarkets usually have small stock levels, easy access to suppliers and tend to have personal relationship

Figure 2. 3 Conceptual framework on Working capital management practices



Source: Orobia et al (2013)

with them. As such, the use of sophisticated inventory management techniques such as the economic order quantity models is non-existent. This finding was also similar with Agyei-Mensah"s (2011) study, which found that 80 percent of the respondents never used the economic order quantity model. The same study found that inventory level determination was based on the owner-manager"s experience. It is possible that the supermarkets that experience stock out costs lack basic knowledge and skills. Credit policies are essential in managing debtors (Atrill, 2006). This study found evidence that owner-managers of small businesses assess credit risk based on their personal relationship with the customer. The current task environment is characterized by the situation where being connected in a personal way is the real guarantee that any transaction concluded will be honored as expected (Munene, 1991). In this environment, contracts are rarely documented. In addition, the customers are not sufficiently sophisticated to demand or expect accounting documentation such as invoices, statements and the like. The finding was consistent with Eyaa and Ntayi (2010). Notably, these businesses have unwritten credit policy spelling out the credit terms and conditions.

This is similar to Poutziouris et al.‟s (2005) study that found evidence that 22 percent of the respondents had verbal credit policy. However, the limitation of such an approach is delay or failure to honor debts when they fall due. Poutziouris et al. (2005, p. 7) reported that: debtors who are experiencing financial difficulties will look to do business with, or try to delay payment to, supermarkets known to have poor or relaxed credit granting and collection procedures. This suggests that some debtors tend to abuse the trust extended to them by not complying with the verbal agreements, and therefore trust may be insufficient in managing debtors.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the strategies, the choice of method, the data collection techniques and the data analysis technique employed in this study. It as well describes the sampling technique used as well as the ethical considerations for data collection.

3.1 Research Design

Survey strategy was applied to a case study. In view of the above, the most appropriate choice for data collection and analysis techniques was the mixed method. Research design, according to Burns and Grove (2003) is a blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings. On their part, Polit et al (2001) define the concept from the researcher‟s point of view. According to them, a research design is "a researcher‟s overall for answering the research questions or testing the research hypothesis". In line with this, Cooper and Schindler (2006) classified research design into explanatory, descriptive and exploratory. The exploratory research, according to Robinson (2005) as cited in Saunders et al. (2007) is a means of finding out "what is happening, what new insights exists, ask questions and assess phenomena in a new light". Schutt (2006) opine that the goal of exploratory research is to learn how the phenomena being studied function and how to investigate the phenomena without explicit expectations. The explanatory design deals with why questions and looks for explanations of the nature of certain relations (Saunders et al., 2007). By extension, the explanatory research design looks at explaining rather than simply describing (Maxwell & Mittapalli, 2010). Creswell (2005) describes the descriptive design as a research design that is concerned with the conditions or interrelationships that exist, opinions that are held, processes that are going on, effects that are evident, or trends that are developing. This helps in providing an accurate description of phenomenon and no attempt is made to change the conditions pertaining. The current study focuses of assessing the working capital management practices among supermarkets in Kumasi Metroplis. In view of this, the descriptive research design was adopted, since there will be no attempt in altering the data gathered.

3.2 Research philosophy/approach

Social science research can be classified into either interpretivist or positivist philosophies. The interpretivist deals with qualitative approach while the positivist has to do with the quantitative approach to research. Quantitative research strategy is a research strategy that looks at measurement and the collection and analysis of data (Bryman, 2004). Further to this, he believes that this approach has for preoccupations, namely: measurement, causality, generalization and replication. The qualitative research, on the other hand, is a term used as an overarching category, covering a wide range of approaches and methods found within different research disciplines (Ritchie & Lewis, 2003). Bryman (1998) postulates that the manner in which a phenomenon being studies is understood and interpreted in social reality is central to the qualitative approach to research.

The study therefore adopted the „mixed‟ method approach (a combination of both quantitative and qualitative approaches). This was done for complementary purposes. Combining these approaches enable researchers to obtain a more suitable and consistent results compared to what would have being achieved by using a single method (Creswell, 2003; Sarantakos, 2005; Bergman, 2008). The quantitative method was used to obtain data from managers of the supermarkets while the qualitative was used for obtaining relevant information to complement the data from the questionnaire.

3.3 Data Collection Procedure

Questionnaire was used to collect the data from the field. The questionnaire was organised into five sessions to reflect the research questions and objectives. The questionnaires were administered on 20 employees selected from 15 supermarkets in Kumasi metropolis. However, some of the supermarkets were larger than others so the respondents required from each supermarket varied. The period for the collection of data was 30 days. The employees consisted of accountants. The questionnaire was administered personally to the respondents in order to guide and explain to the respondents portions of the questionnaire that was difficult for them to understand. The data collection techniques in addition to the questionnaire were documentary analysis and unstructured interviews. In effect, the study relied on primary and secondary data from the retail companies.

3.4 Population, Sample Size and Sampling Technique

From a purposive sample of 15 supermarkets in Kumasi Metropolis, 20 accountants of the supermarkets were selected using purposive sampling technique with an expected response rate of 80%. In this study the researcher and other trained data collection volunteers visited the companies and ensured that the questionnaires were answered. Respondent were accountants responsible for the management of working capital. This paved way for consistent comparison. Purposive sampling was used because it ensured the selection of cases that helped in the answering of the research questions, met the objectives of the study and were informative. The study made use of the advice of Patton, 2002 (as cited in Saunders et el. 2009) on purposive sampling which places emphasis on the need to select information-rich case in purposive sampling with the need to be statistically representative as in probability sampling. The population of the case study is unknown. However, Smith (2013) postulates that one should not worry if he or she is unsure about this number because it is not uncommon for the population to be unknown. The Survey strategy like the one employed by this study ignores the population size when it is unknown. Population size is only likely to be a factor when you work with a relatively small and known group of people (e.g., the members of an association).

3.5 Data Analysis procedures

Exploratory data analysis techniques was used which include the use of diagrams, charts and tables to give meaning to the data collected. From this the study will detect patterns, trends and key influencers of working capital management practices in order to make it possible to question the data and information produced in a way that will answer the research questions. The exploratory data analysis according to Saunders et al (2009) will allow flexibility to introduce previously unplanned analyses to respond to new findings which can give way for the researcher to look for and describe other statistical relationships in the data which the study was not initially designed to test. Survey Monkey and Microsoft Excel will be the software to be used for the analysis of the data to be generated. The result from the exploratory analysis will be subjected to evaluation and synthesizing of ideas, summarizing, categorizing and the structuring of meanings from the data. In the process of analysing the data, the analysis is structured into the following main blocks of issues. Firstly, the working capital management practices of each of the four major components of working capital will be established from the responses of the companies. Secondly, the factors that are believed to influence the choice of the WCM practices employed by these companies will be confirmed/validated or debunked based on the response data from the companies. Thirdly, based on the final working capital management practices of the retail firms under study, the companies themselves will tell whether the outcome of their choice of WCM practices is excellent or poor using performance indicator of WCM practices.

3.6 Ethical Considerations

A lot of ethical issues will be taken into consideration before, during and after the study. All articles, journals, books among others that were used in this study were properly referenced. Before the researcher administered the questionnaires and interviewed the company officials, letters were to the managers of the company for permission to be granted. Not only was that, but the privacy of the respondents of the questionnaire considered. Managers were asked if they had the luxury of time to fill the questionnaires. More importantly, the purpose for which the research is conducted was explained to respondents before they were handed with the questionnaire to fill.

3.7 Validity and reliability of the research

Validity of a research can be achieved in two steps they are internal and external validity. Internal validity is accuracy or the quality of the research work, external validity is the degree at which results or findings can be generalized (Yin, 2008).

Given the fact that questionnaires will be administered personally, the data collection method will accurately measure what they were intended to measure and that the study is convinced that the findings are going to be what they profess to be about. As the theoretical framework, developed will be broad in sense and will enable to validate the survey internally and the respondent‟s answers will enable us to observe the degree of external validity. The theoretical framework will encompass certain theories which will enable us to validate the survey which is validated with other similar research within the domain of our thesis; hence we can say that the survey which has been developed is validated to a certain extent as it has been developed from several research works.

Reliability is the extent the study can be repeated with same results (Williamson, 2002). The reliability for the survey can be seen as receiving quality answers for the questions, and how you are able to get the respondents to understand the questionnaire. To achieve this we are using simple questions with a scaling system. This questionnaire will be targeted at the required sample who are supply chain employees of the mining companies with a rank not less than a supervisor. The survey which has been developed in a careful manner to ensure that the respondents can answer in the best possible manner and also the companies have been carefully selected to ensure a high response rate. Therefore, the data collection method will yield dependable findings and there can be transparency in how sense will be made from the raw data.

CHAPTER FOUR

ANALYSIS AND PRESENTATION OF RESULTS

4.0 Introduction

This chapter analysed the data collected from the field and presented in such a way that would easily be understood by readers. Analytic tables and charts have been used to question the data collected and out of that trends have been established, patterns have been discovered and meanings have been given to the data collected. This has made it possible for the research questions of the study to be answered.

4.1 Profile of Respondents

Table 4.0: Background Information

	Frequency (40)	Percentage

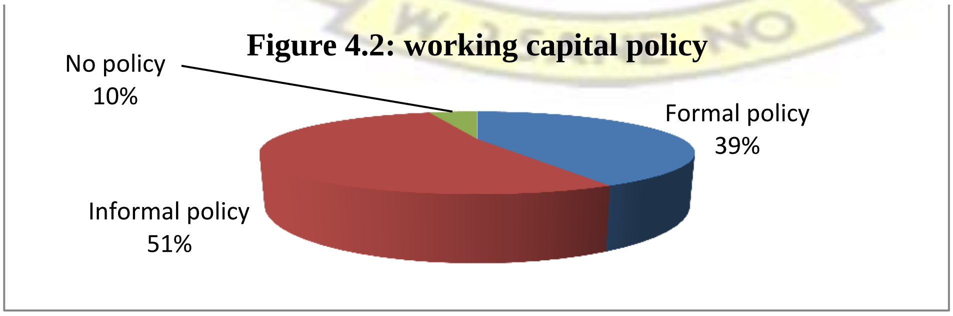
Age Group		
18-30	5	33.3
31-40	7	46.7
41 - 50	3	20
Gender of Respondents		
Male	14	93.3
Female	1	6.7
Educational Level of Respondents		
First Degree	12	80
Second Degree	1	6.7
Polytechnic Degree	2	13.3
Years of work experience of respondents		
1 - 5	6	40
6 - 10	7	46.7
11 – 20	2	13.3
Average Annual Sales of Supermarkets(Gh¢ 000,000)		
0.5 – 2.0	4	26.6
2.1 – 4.0	1	6.7
4.1 – 6.0	1	6.7
6.1 – 8.0	3	20
8.1 and Above	6	40
Years of Existence of Supermarkets		
1 - 10	5	33.3
11 - 20	8	53.3
21 - 30	1	6.7
31 - 40	1	6.7

Source: Field Data (2015)

4.2 Working capital policy

Policy on Working Capital: Overall, the supermarkets studied operated an informal working capital policy representing 51% of the respondents. However, the bigger supermarkets among them were operating formal working capital policy. It was only 10% of the respondents that did not have working capital policy and in fact they had no idea of the use of it.

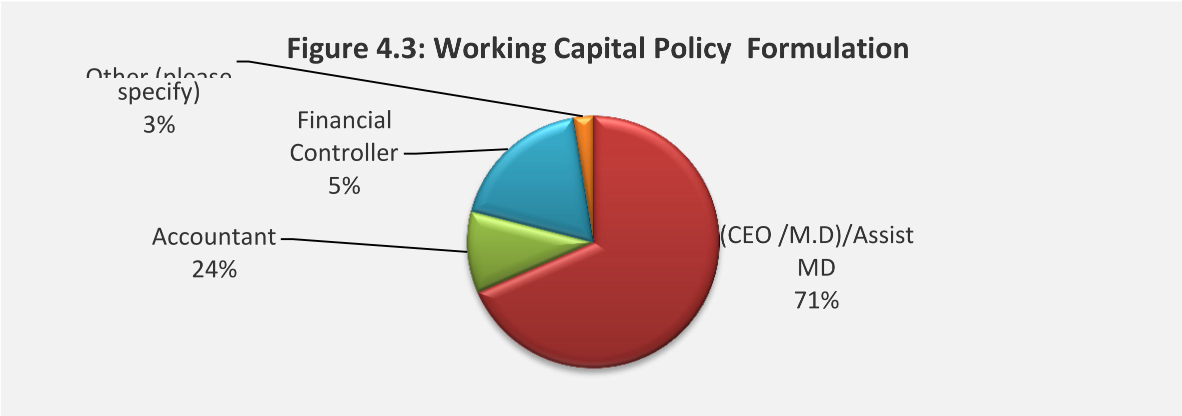
Figure 4.2: working capital policy



Source: Primary data 2015

Working Capital Policy Formulation: The responsibility of setting the policy for working capital largely rest with the managing director representing 71% of the responding super markets. Some of the supermarkets (24%) however consider this as the duty of the accountant. It can be drawn from the analysis that working capital formulation revolves around the senior employees.

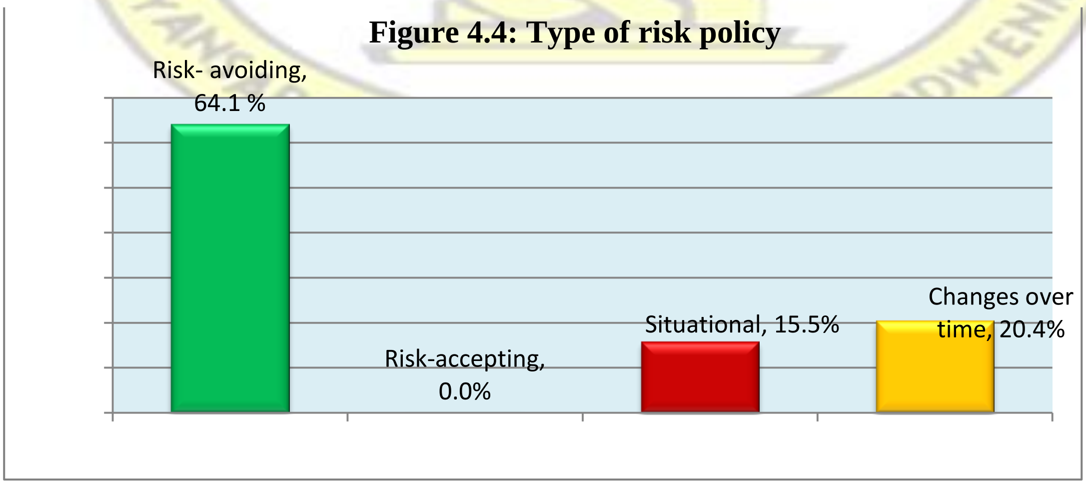
Figure 4.3: Working Capital Policy Formulation



Source: Primary data, 2015

Nature of risk policy. The type of risk policy that the supermarkets employ for the management of working capital was described by 64.1% of the managers of the supermarkets as risk avoiding. Notwithstanding this, 20.4% of the managers indicated that the policy changes over time and to15.5% of the managers, the risk policy is situational

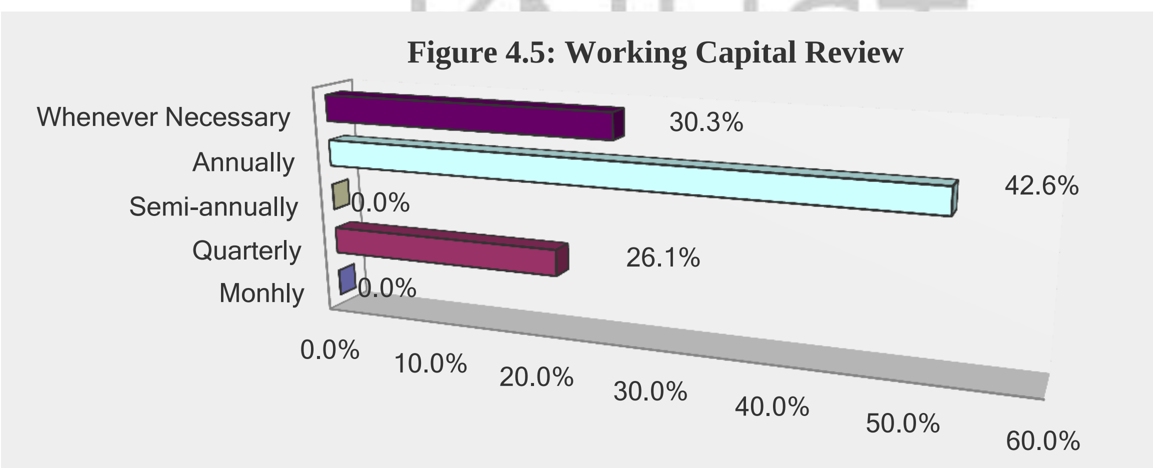
Figure 4.4: Type of risk policy



Source: Primary data (2015)

Working Policy Review. According to 42.6% of the respondents, the working capital polices of the supermarkets were reviewed annually. Besides, 30.3% review it as and when necessary and 26.1% do it quarterly. None of the them do it monthly or semiannually.

Figure 4.5: Working Capital Review

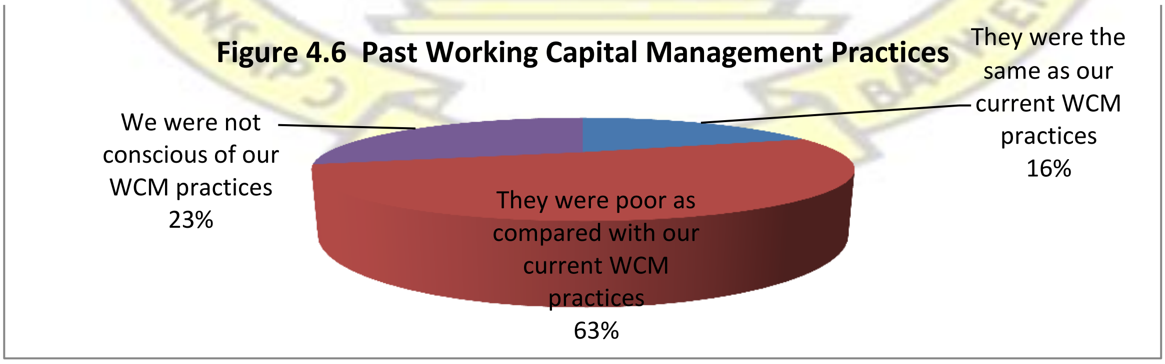


Source: Primary data (2015)

WCM Practices in the Past

In the opinion of 63% of the respondents, in the past the practices of working capital management adopted by the supermarkets were poor as compared with their current WCM practices. In the understanding of 23% of the respondents, the supermarkets were not conscious of WCM although the practices existed. A minority respondents of 16% thought their WCM practices have been the same over the years and that there has not been any change.

Figure 4.6 Past Working Capital Management Practices

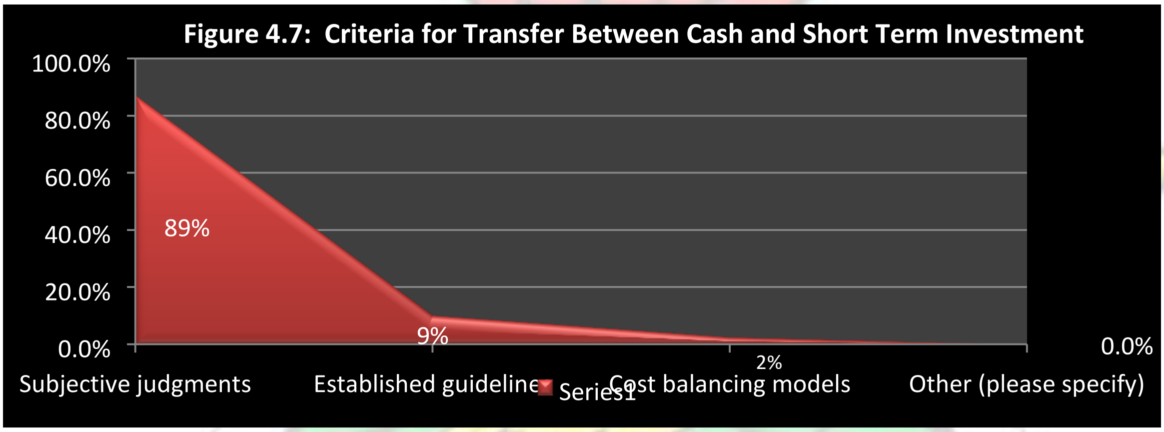


Source: Primary Data (2015)

4.3 CASH AND CASH EQUIVALENT MANAGEMENT PRACTICES

Criterion for Transfers Between Cash and short term investment Instruments: In a situation where the supermarkets have surplus cash and want to invest this cash in short term instruments, or the supermarkets want to convert their short term instrument to cash, 89% of the held that they resort to subjective judgment to do so. Only few (9%) of them make use of established guidelines. Cost balancing model was noted to be alien to them.

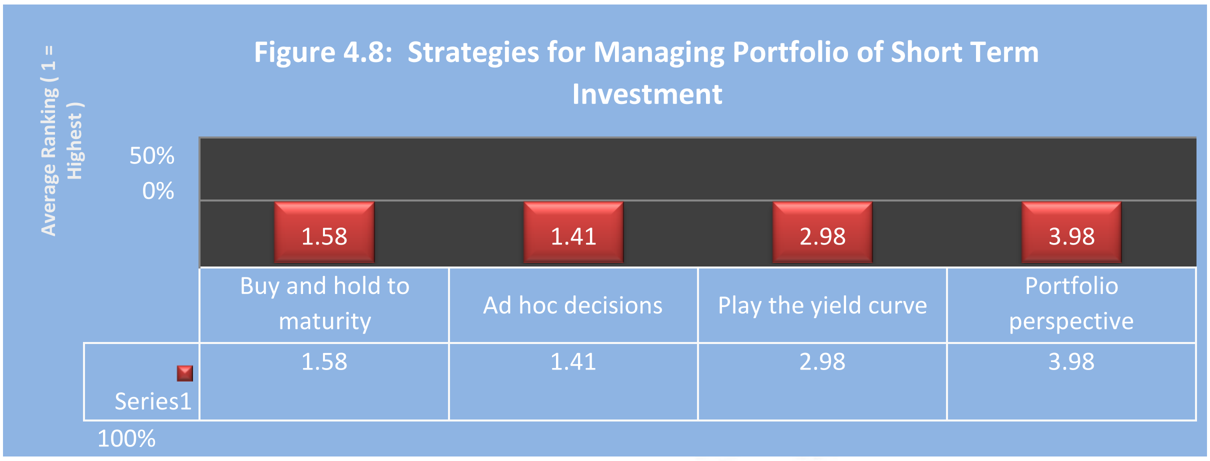
Figure 4.7: Criteria for Transfer Between Cash and Short Term Investment



Source: Primary data (2015)

Strategies for Managing Short Term Investment Portfolio: The supermarkets settle on ad hoc decisions as the overall strategy for managing their portfolio of short term investments. With the highest ranking of 1.41. It IS the most popular strategy for the supermarkets. Buying the instruments and holding them to maturity is the strategy with the second highest ranking of 1.58 by the respondents. Playing the yield curve and portfolio perspective were foreign to the supermarkets.

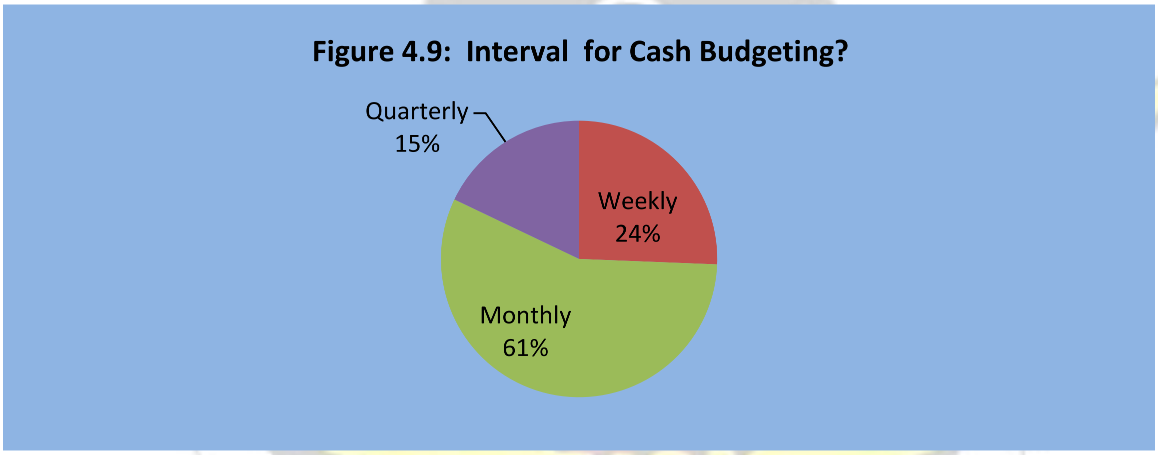
Figure 4.8: Strategies for Managing Portfolio of Short Term Investment



Source: Primary Data (2015)

Frequency of Cash Budgeting: The shortest possible of time for which the supermarkets utilizes cash budgeting is on monthly basis. Some of the supermarkets do cash budgeting on weekly basis whereas a small segment of the supermarkets do it on quarterly basis.

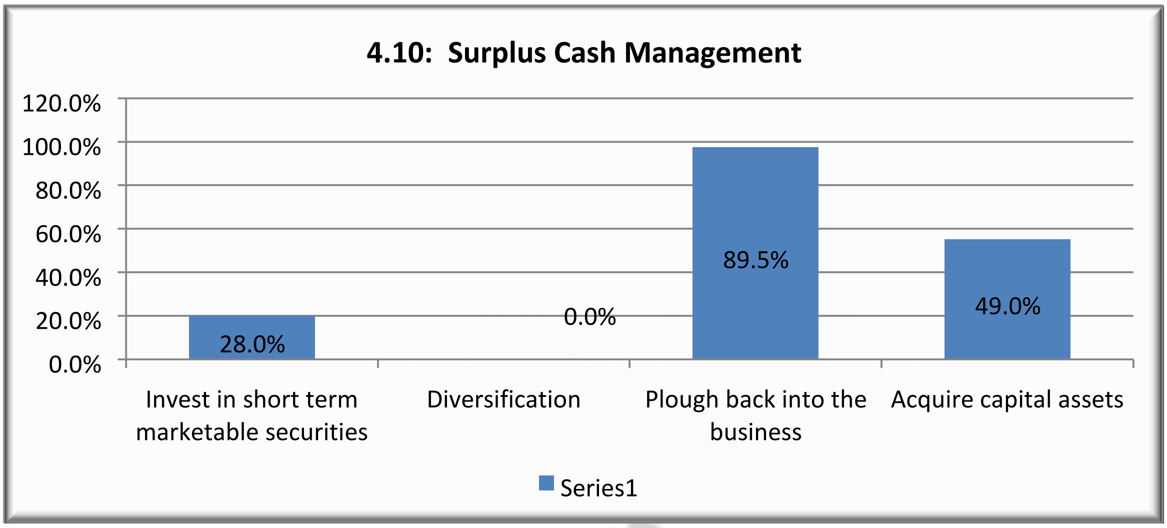
Figure 4.9: Interval for Cash Budgeting?



Source: Primary Data (2015)

4.3. 1 Management of Surplus Cash: When the supermarkets realize surplus cash, 89.5% of the respondents claim that they plough it back to the business, 49% claim they acquire capital asset with it and finally, 28% of them invest it in short term instruments. They were all silent on diversification.

Figure 4.10: Surplus Cash Management



Source: Primary Data (2015)

Choosing investment methods for cash surpluses: The premium factors that the supermarkets consider when choosing investment methods for cash surpluses are "the risk and yield of the investment" and maturity of the investment. The least of the factors they consider are "the size of the surplus" and "any penalty which may be incurred for early termination" The table below depicts the details.

Table 4.1: Factors to consider when selecting an appropriate investment method for short-term cash surpluses

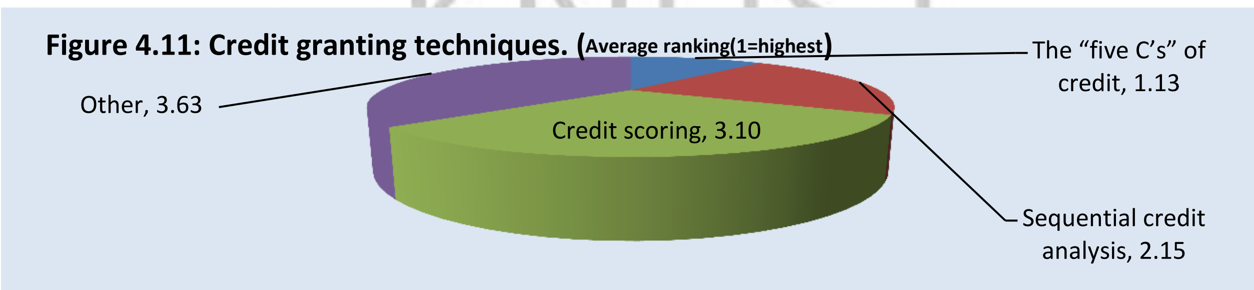
Answer Options	1st choice	2nd choice	3rd choice	4th choice	5th choice	Response Count
The size of the surplus	2	0	0	11	27	40
The easiness with which an investment can be realised	5	13	22	0	0	40
When the investment is expected to mature	15	19	6	0	0	40
The risk and yield of the investment	17	8	12	1	0	38
Any penalty which may be incurred for early termination	0	0	0	28	12	40
					answered question	**40**
					skipped question	**0**

Source: Primary Data (2015)

4.4 ACCOUNT RECIEVABLE MANAGEMENT PRATICES

Procedure for Granting Credit: The five C‟s of credit was the principal technique used by the supermarkets when granting credit. The average ranking for the five C‟s of credit is 1.13. The next technique is sequential credit analysis with an average ranking of 2.15. Credit scoring was too sophisticated a methods for the super markets.

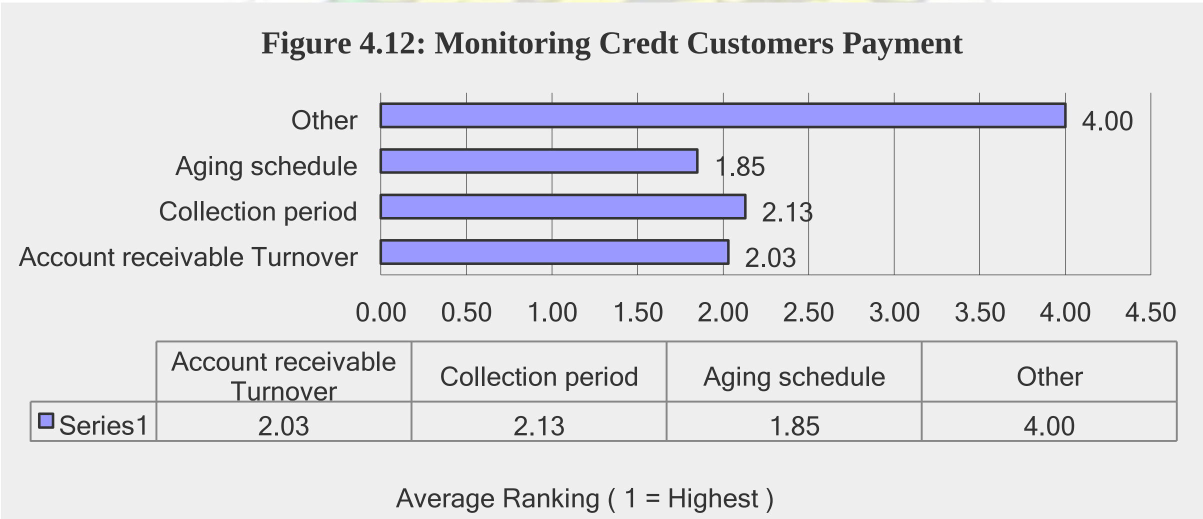
Figure 4.11: Credit granting techniques. (Average ranking(1=highest)



Source: Primary Data (2015)

Measures to Monitor Credit Customers’ Payment Behavior: In monitoring the payment behaviour of their credit customers, the supermarkets that were studied relied on the aging schedule which was ranked at 1.85. Others were account receivable turnover and collection period with the ranking of 2.03 and 2.13 accordingly.

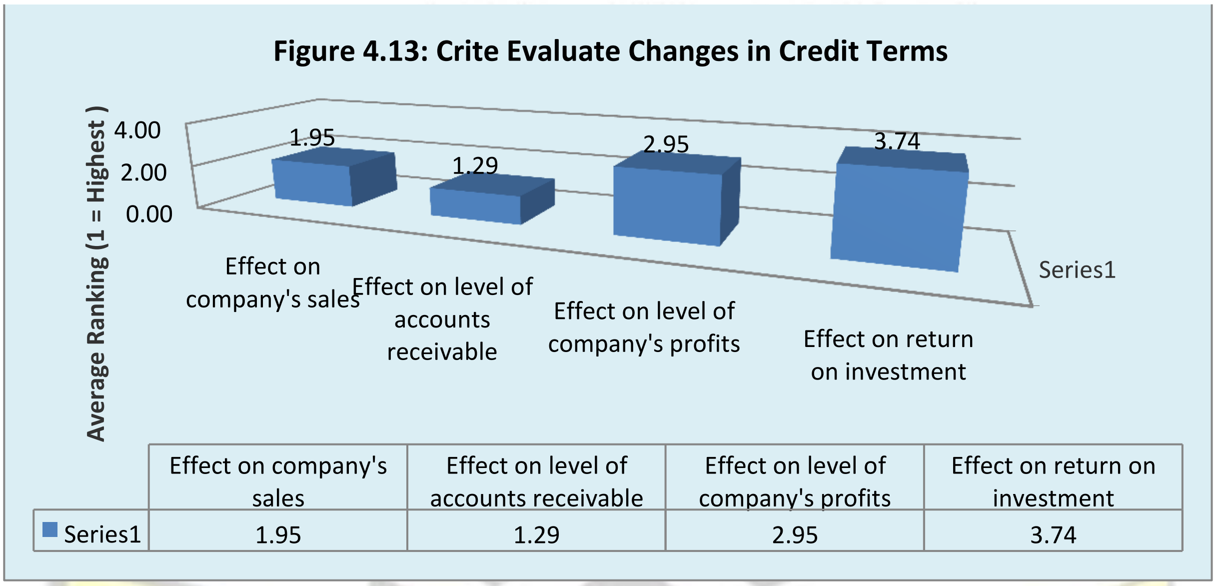
Figure 4.12: Monitoring Credt Customers Payment



Source: Primary Data (2015)

Evaluating Credit Term Changes: The major criteria that the supermarkets utilize in evaluating proposed changes in their credit terms is by considering the effect of the credit on the level of accounts receivable with the highest average ranking of 1.29. Others that the supermarkets viewed it to be worth considering were the effect of the credit on sales and the effect of the credit on the profit of the supermarkets.

Figure 4.13: Crite Evaluate Changes in Credit Terms

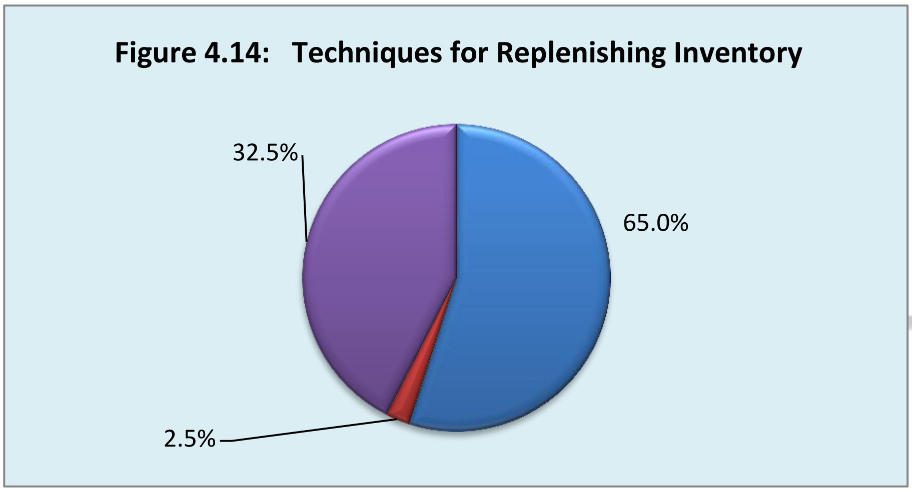


Source: Primary Data (2015)

4.5 INVENTORY MANAGEMENT PRACTICES

Replenishing Inventory: With respect to managing inventory, how the supermarkets decide on the appropriate amount to replenish their warehouses and other inventory storage points were by means of ad hoc decisions representing 65% of the respondents. Computerized inventory control system is also very popular among them and it represents 32.5% of the respondents.

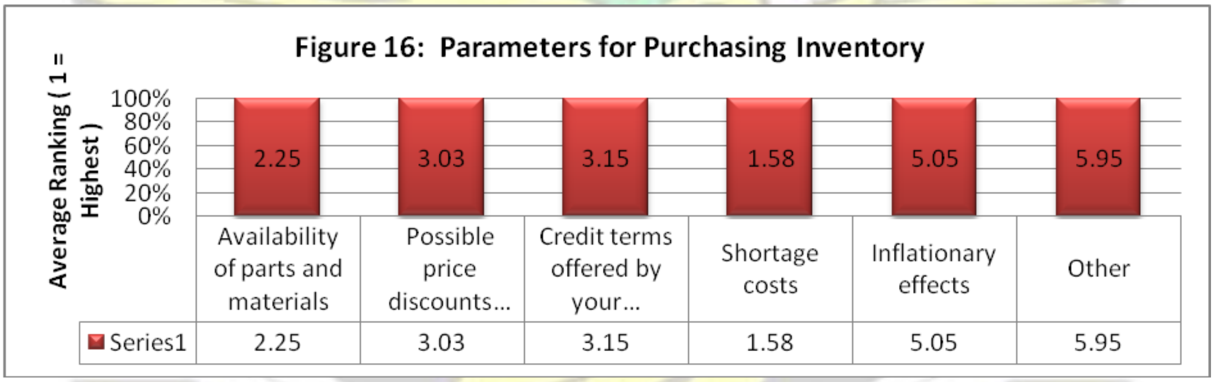
Figure 4.14: Techniques for Replenishing Inventory



Source: Primary data (2015)

Parameters for purchasing inventory: In deciding on replenishment quantities for inventory purchased by the supermarkets, they highly consider Shortage costs. Availability of parts and materials, possible price discount and credit terms offered by their supplier were also considered as important parameters.

Figure 4.15: Parameters for purchasing inventory:

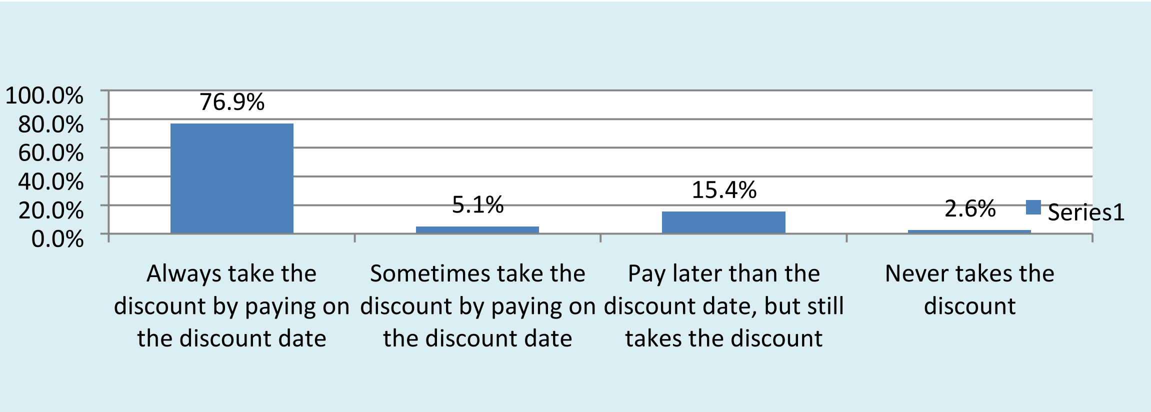


Source: Primary Data (2015)

4.6 ACCOUNT AND NOTE PAYABLE PRACTICES

Suppliers discount: Concerning the policy/practice of the supermarkets regarding cash discounts offered by their supplier, 76.9% of them always take the discount by paying on the discount date, 15.4 Pay later than the discount date, but still takes the discount, 5% sometimes take the discount by paying on the discount date and 2% never takes a discount.

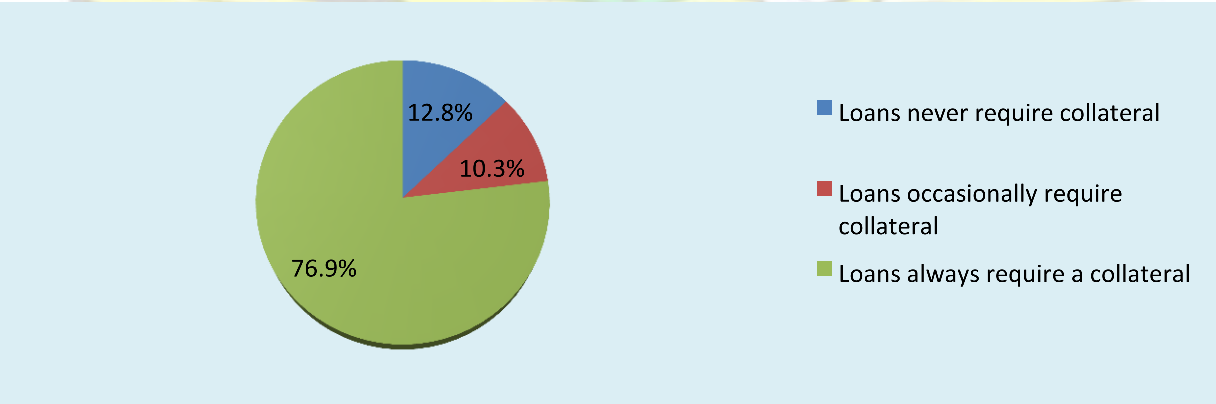
Figure 4.16: Suppliers cash discoun



Source: Primary Data (2015)

Collateral and Bank Borrowing: The study decided to establish the extent that collateral form part of the short term loans of the supermarkets. It was discovered from 76.9% of the respondents that their loans always require collateral. In the case of 12.8% of the respondents, loans never require collateral and 10.3% agreed that loans occasionally require collateral

Figure 4.17: Collateral and Short Term Loan



Source: Primary Data (2015)

4.7 DETERMINANTS OF WCM CHOICES

Macro factors that are external: The premium factors that the supermarkets consider when choosing working capital management practices were legislation (held by 50% of the respondents) and business and economic environment (held by 45% of the respondents). The least of the factors they consider were politics (held by 95% of the respondents) and industry effect (held by 72.5% of the respondents). Please, refer to the figure below for details.

Figure 4.18: Choice of WCM practices and the external macro factors that influence them.

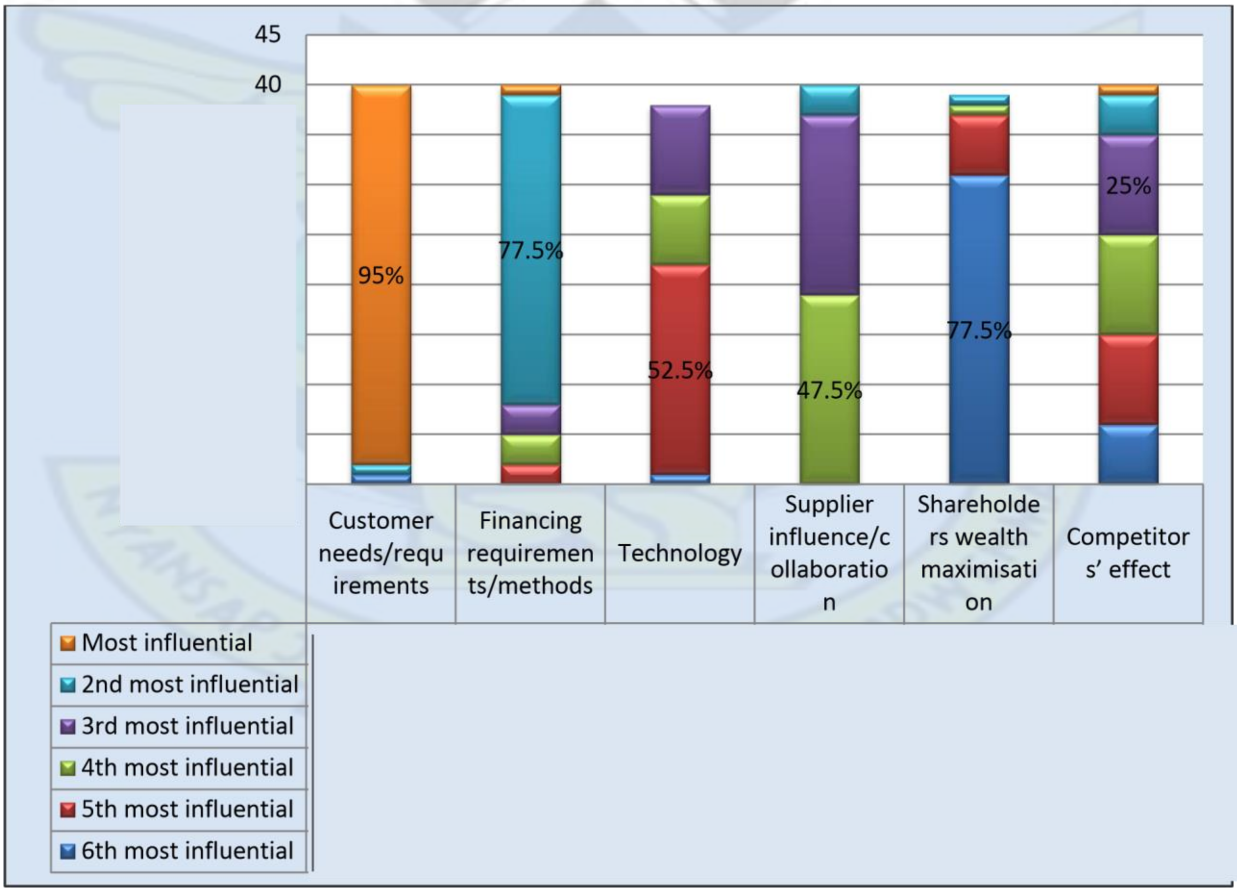
Figure

4th most influential	38	0	1	1

Source: Primary Data (2015)

Micro factors that are external: The important factors that the supermarkets consider when choosing working capital management practices were **customer needs/requirement** (held by 95% of the respondents) and **financing requirements/methods** (held by 77.5% of the respondents). The least of the factors they considered were **technology** (held by 52.5% of the respondents) and **supplier influence/collaboration** (held by 47.5% of the respondents). Please, refer to the figure below for details.

4.19: Choice of WCM practices and the external Micro Factors that Influence them

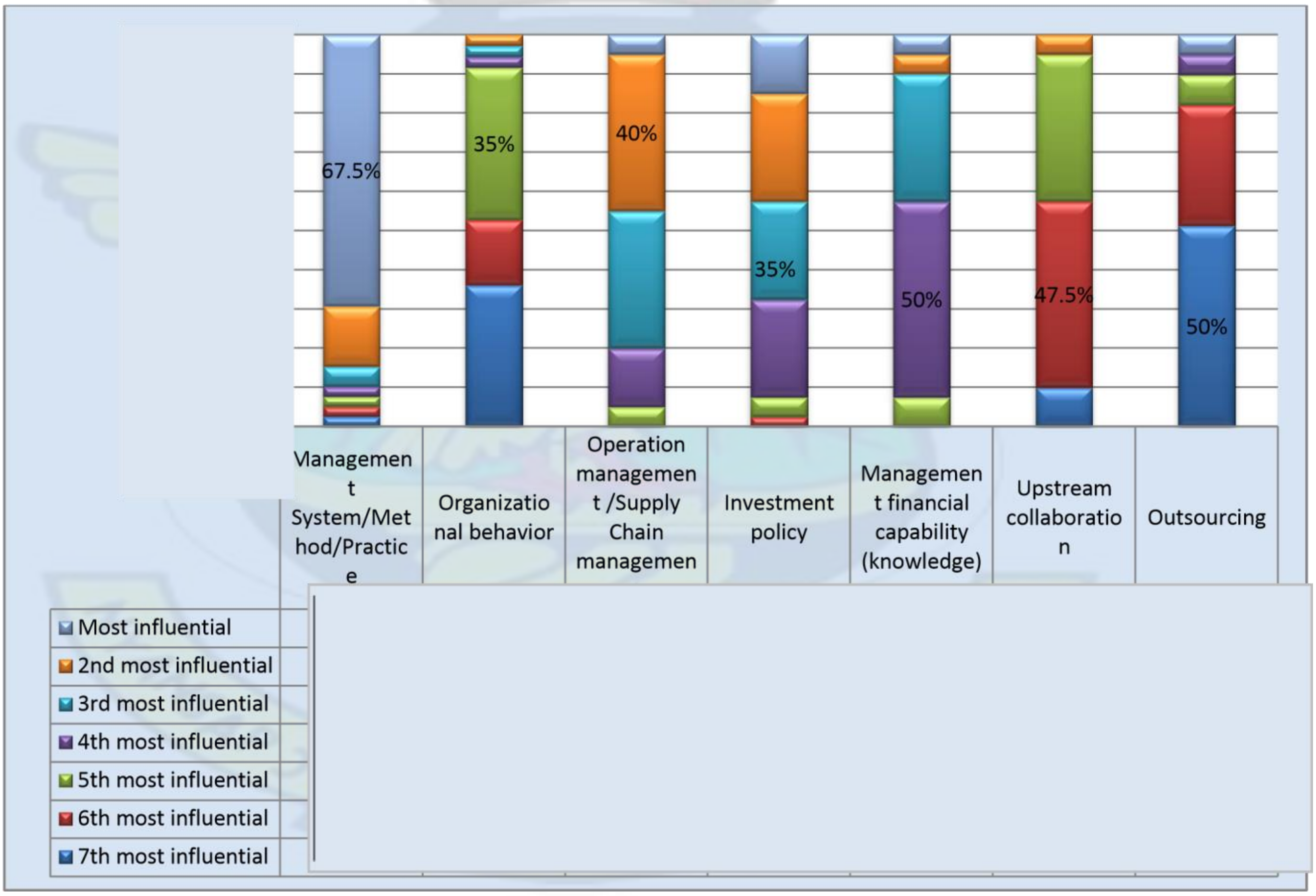


Source: Primary Data (2015)

Figure

Macro factors that are internal: The important factors that the supermarkets consider when choosing working capital management practices were **management systems/methods/practice** (held by 67.5% of the respondents) and **operation management/supply chain management** (held by 40% of the respondents). The least of the factors they considered were **upstream collaboration** (held by 47.5% of the respondents) and **management financial capability/knowledge** (held by 50% of the respondents). Please, refer to the figure below for details.

4.20: Choice of WCM practices and the Internal Macro Factors that Influence them

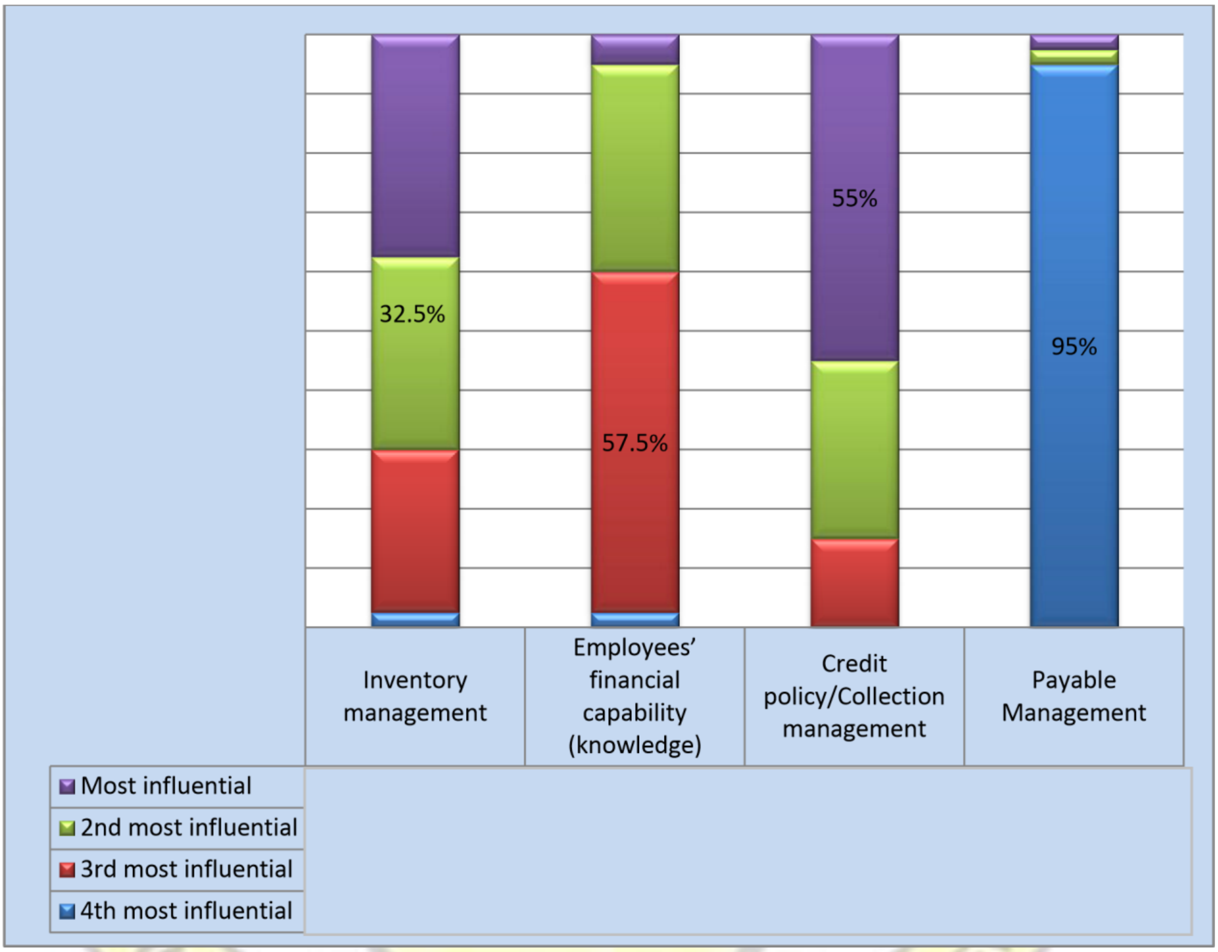


Source: Primary Data (2015)

Micro factors that are internal: The important factors that the supermarkets consider when choosing working capital management practices were **credit policy or collection**

Figure
management (held by 55% of the respondents) and **inventory management** (held by 32.5% of the respondents). The least of the factors they considered were **employee financial capabilities** (held by 57.5% of the respondents) and **payable management** (held by 95% of the respondents). Please, refer to the figure below for details.

4.21: Choice of working capital management practice and the micro internal factors that Influence them



Source: Primary Data (2015)

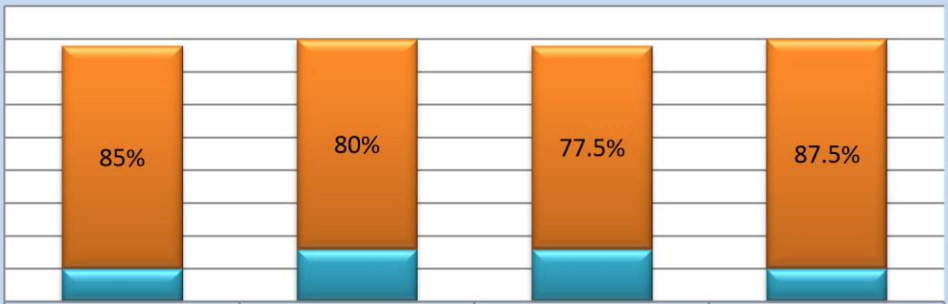
4.8 WCM AND APPLICATION OF INFORMATION TECHNOLOGY

From the perspective of 96% of the respondents, the application of information technology was very essential for efficient working capital management practices. Therefore the supermarkets consider information technology as extremely useful in cash management,

Figure

inventory management, account receivable management and account payable management. Please, refer to the figure below for details.

4.22: The usefulness of I.T in Working Capital Management Practices



	Cash management practices	Account receivable practices	Account payable practices	Inventory management practices
Extremely Useful	34	32	31	35
Very Useful	5	8	8	5
Useful	0	0	0	0
Somewhat Useful	0	0	0	0
Not Sure	0	0	0	0
Not Useful	0	0	0	0

Source: Primary Data (2015)

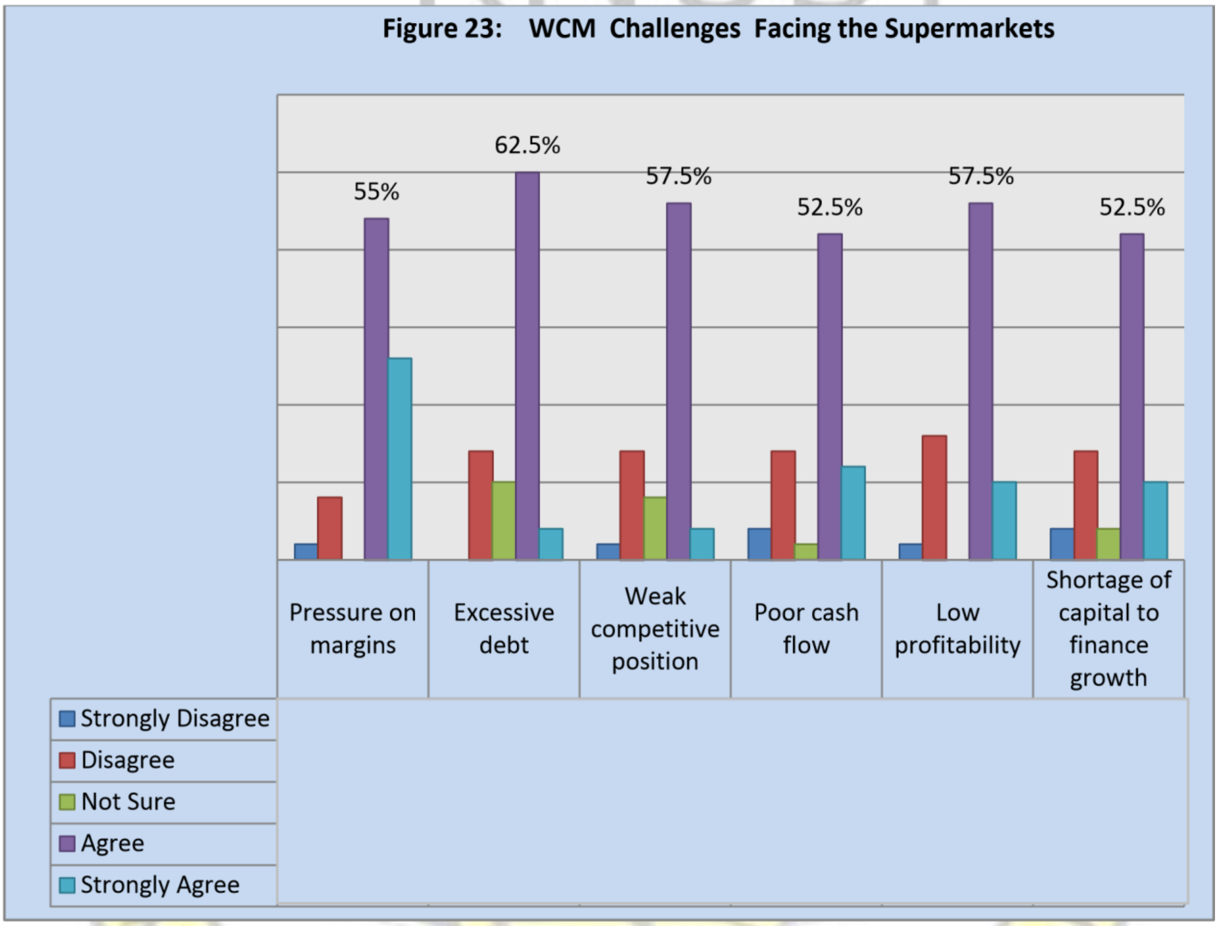
4.9 EFFECTIVENESS OF THE WCM PRACTICES OF SUPERMARKETS

In an attempt to assess the effectiveness of the working capital management practices of the supermarkets, the study in the subsequent paragraph examines the challenges and benefits of working capital management practices. So if the supermarkets are benefiting from the working capital management practices then it means that they are effective in their WCM practices. Conversely if they are facing challenges, then it connotes that they are not being effective in the management of their working capital.

Figure

Challenges that supermarkets face in their Working Capital Management: From the analysis below, the respondents agreed that the major challenges that the supermarkets face in their working capital management practices were Pressure on margins (held by 55% of the respondents); Excessive debt (held by 62.5% of the respondents); Weak competitive position (held by 57.5% of the respondents); Poor cash flow (held by 52.5% of the respondents); Low profitability (held by 57.5% of the respondents) ; and Shortage of capital to finance growth (held by 52.5% of the respondents). Less that 1% of the respondents disagreed to any of the challenges above Please, refer to the figure below for details.

Figure 4.23: WCM Challenges Facing the Supermarkets

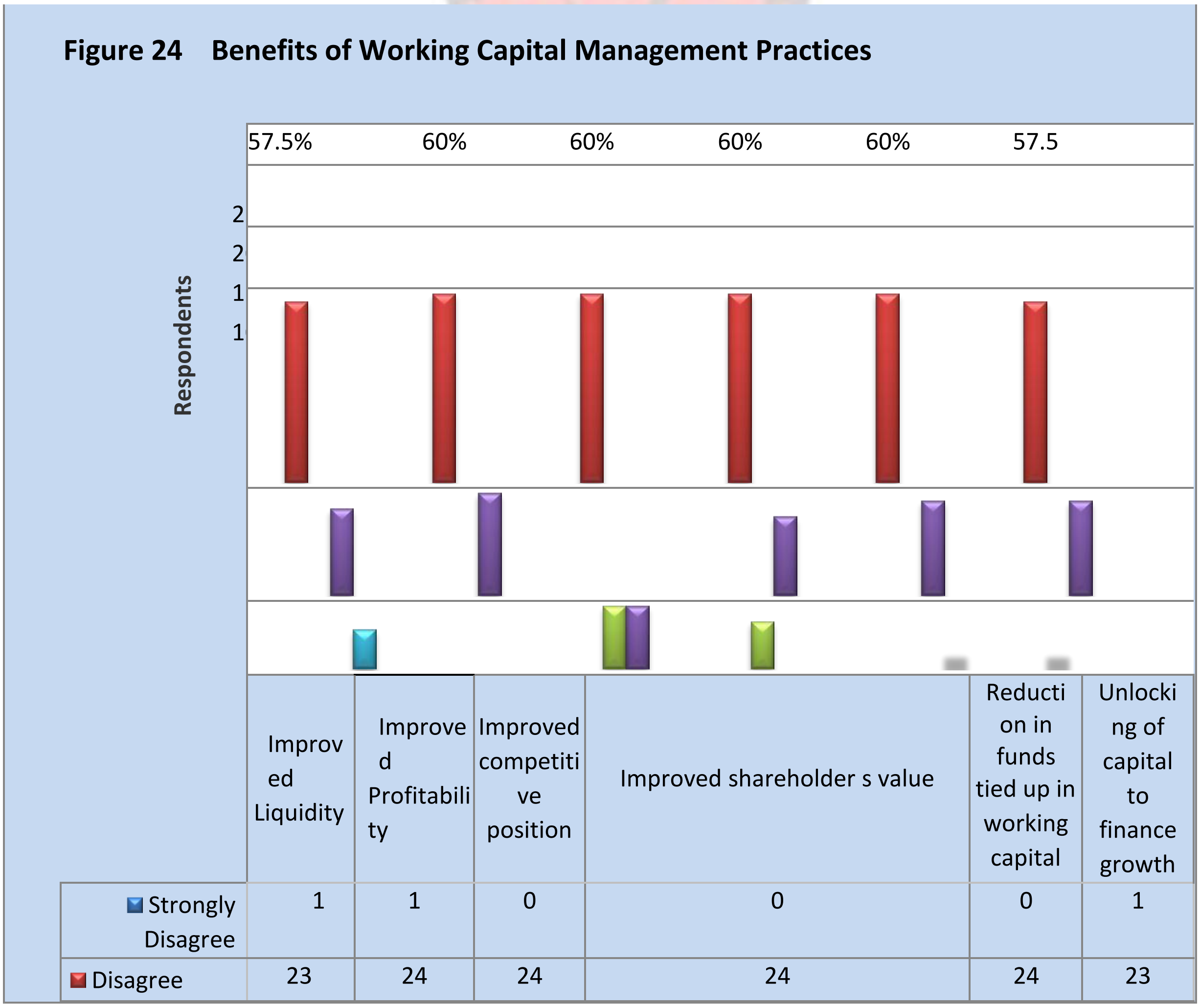


Source: Primary Data (2015)

Benefits of Working Capital Management Practices that accrue to the super markets: Concerning the benefits that accrue to the supermarkets as a result of the application of WCM practices, the respondents disagreed that the supermarkets benefit from the application of working capital management practices. By this the respondents meant that: the supermarkets do not experience improved liquidity (held by 57.5% of the respondents);

the supermarkets do not experience improved profitability (held by 60% of the respondents); the supermarkets do not experience improved competitive position (held by 60% of the respondents); the supermarkets do not experience improved shareholders value (held by 60% of the respondents); the supermarkets do not experience reduction in funds tied up in working capital (held by 60% of the respondents); and finally, the supermarkets are not able to Unlock capital to finance growth (held by 57.5% of the respondents). It was only between 20% and 30% of the respondents that were holding views opposite to the positions above. Please, refer to the figure below for details.

Figure 4.24: Benefits of Working Capital Management Practices



Not Sure	0	1	8	6	1	2
Agree	11	13	8	10	12	12
Strongly Agree	5	1	0	0	2	1

30

Source: Primary Data (2015)

4.10 Discussion of the Findings

From the findings of the study the five C‟s of credit was the principal technique used by the supermarkets when granting credit. This is in line with Zaugg, (2003) who also the promote that the concept of „five Cs of credit‟ is a very useful checklist and vital in assessing the request from a customer for supply on credit. The supermarkets use the aging schedule to monitor the payment behaviour of their credit customers. In a study by Wendorf ,2011, he concluded that aging analysis is very key because firm transaction are tracked through account receivables which signifies a key attention to such structures. Among the supermarkets, the appropriate amount to replenish warehouses and other inventory storage points is based ad hoc decisions. However, William (2014), advice that the economic order quantity model is the best to use when it comes to the replenishment of inventory and that it must be used as a determinant of optimal inventory level, which takes into account total cost, inventory carrying and shortage cost. Legislation, Credit policy , management method , customer needs/requirement were the determinants of the

Choices of WCM by the supermarkets. This position is supported by (Peel, et al, 2000; Ooghe, 1998; Boisjoly & Izzo, 2009; Deloof, 2003) who also look at these determinants in the context of external and internal macro factors. Whereas this study found the determinants of working capital to be Legislation, Credit policy, management method and customer needs/requirement; Pieterson (2012), is of different opinion and that he argue that the choice of management practices in the management of the working capital of firm is dependable on the operational cycles of the firm‟s daily activity.

Pressure on margins is the major challenge that the supermarkets face in their working capital management practices. The supermarkets face liquidity challenges, low profitability, worse competitive position, increased funds tied up in working capital and finally lack of ability to unlock capital to finance growth. On the contrary, the following authors have differing positions on the findings above. According to Panwala, (2009), liquidity and profitability are the two very important aspects of corporate business existence.

Therefore Liquidity measures the capacity of a company to meet all the growing obligations. The efficient management of working capital is the most crucial factor in ensuring the survival, liquidity, solvency and profitability of a business organization, (Samuelle, 2011). As mentioned earlier, liquidity is troubled with the capability of a company to make happy its financial obligations on a day to day basis (Moyer, et al., 2009). Moreover, two differing notions are recognized within this period, believed to contribute to effective WCM; that is financial viewpoint and organizational context. More emphatically efficient working capital management involves preparation and scheming current assets and current liabilities to put off the hazard of a company‟s incapability to meet due short period obligations on the one hand, and to keep away from unnecessary venture in these assets on the other hand (Eljelly, 2004).

Working resources is personally connected with day-to-day operations of a business. Thus, the managing of working capital becomes compulsory (Virendra, 2007). In wideranging practice it refers to the surplus of current assets over current liabilities. Working capital management consequently, deal with the tribulations which happen to administer the current assets, current liabilities and the inter relationship exists sandwiched between them. The consequence of working capital to the achievement of any business cannot be overemphasized. One of the serious predicaments faced by the majority monetary managers is how to effectively and efficiently manage working capital to the advantage of their organization.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIOS

5.0 Introduction

This chapter involves a presentation of the summary of findings from the analysis done so far. Recommendations based on the findings have been provided to improve the working capital management of the supermarkets that studied. The study is concluded and a statement of the way forward is made.

5.1 Summary of Findings

Working Capital Policy

The overall supermarkets studied, operated an informal working capital policy representing 51% of the respondents. The responsibility of setting the policy for working capital largely rest with the managing director representing 71% of the responding super markets whilst the supermarkets employ risk avoiding policy in their WCM. The working capital policy of the supermarkets was being reviewed annually and the practices adopted by the supermarkets in respect of working capital management in the past were poor as compared with their current WCM practices.

Cash and Cash Equivalent Management Practices

The supermarkets resort to subjective judgment when they have surplus cash and want to invest this cash in short term instruments, the supermarkets also settle on ad hoc decisions as the overall strategy for managing their portfolio of short term investments. The shortest possible of time for which the supermarkets utilizes cash budgeting is on monthly basis and when the supermarkets realize surplus cash, 89.5% of the respondents claim that they plough it back to the business. The premium factors that the supermarkets consider when choosing investment methods for cash surpluses are "the risk and yield of the investment" and "when the investment is expected to mature.

Account Receivable Management Practices

The five C"s of credit was the principal technique used by the supermarkets when granting credit and they use the aging schedule to monitor the payment behaviour of their credit customers changes in credit terms is done based on the effect that the credit have on the level of accounts receivable.

Inventory Management Practices

The appropriate amount to replenish warehouses and other inventory storage points is based on ad hoc decisions whereas the shortage costs is the deciding factor for replenishing quantities of inventory purchased by the supermarkets. Information technology was noted to be very useful in the management of all the components of working capital, ironically computerized inventory control system was not so much upheld by the supermarkets.

Account and Note Payable Practices

As high as 76.9% of the supermarket always take discount from their suppliers and pay on the discount date. It was then discovered that the loans secured by the supermarket always required collateral.

Determinants of the Choices of WCM

Legislation is the major external macro factor that the supermarkets consider when choosing working capital management practices. The customers‟ needs/requirement is the significant external micro factor that the supermarkets consider when choosing working capital management practices. A management method is the central internal macro factor that the supermarkets consider when choosing working capital management practices. Credit policy or collection management is the main internal micro factor that the supermarkets consider when choosing working capital management practices.

Effectiveness of the WCM Practices of Supermarkets

Pressure on margins is the major challenge that the supermarkets face in their working capital management practices. The supermarkets face liquidity challenges, low profitability, worse competitive position, increased funds tied up in working capital and finally lack of ability to unlock capital to finance growth

5.2 Conclusion

The study was motivated by the desire to assess the working capital management practices of selected supermarkets in Ghana. To achieve this, survey instrument was administered on 60 senior employees of leading supermarkets in Kumasi with a response rate of 60%. The data collected was processed by the capability of survey gizmo and Microsoft excel. The results showed that the supermarkets face liquidity challenges, low profitability, worse competitive position, increased funds tied up in working capital and finally lack of ability to unlock capital to finance growth. It is therefore recommended that the supermarkets reexamine the factors that determine their working capital so that they come up with best practices of working capital that can mitigate against the challenges.

5.3 Recommendations

The working capital management policy need to be changed from informal to formal to enhance the chances of the supermarkets to be successful in their WCM. Further, the policies of working capital must be reviewed more than once a year depending upon the supermarket so that weaknesses can be identified early for redial action to be taken on time.

Secondly, the choice of WCM practices of the supermarkets depended on legislation, customer needs, management method, and Credit policy and yet failed to reap the benefits of efficient WCM. It is therefore recommended that the supermarkets reexamine the factors that determine their working capital so that they come up with best practices of working capital that can mitigate against the liquidity challenges, low profitability, worse competitive position, increased funds tied up in working capital and finally lack of ability on the part of the supermarket to unlock capital to finance growth.

Finally, computerized control system must be used to manage inventory instead of the use of the ad hoc system. Supermarkets must therefore deploy I.T in their operations to inject efficiency in their WCM.

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APPENDIX

QUESTIONNAIRE ON**: WORKING CAPITAL MANAGEMENTPRACTICES AMONG SUPERMARKETS IN KUMASI METROPOLIS**

DIRECTIONS:

For certain questions, you are asked to choose one answer among the alternatives. In some cases your opinions is requested by asking you to select from a list of choices that range from one extreme to another. For other questions, you are asked to rank the alternatives in terms of their relative importance to your company. Use "1" to refer to the most important, "2" for the second most important, and so forth. Please do not assign ranks to alternatives that do not apply to your company, just leave the spaces blank. For some questions, you are encouraged to specify other alternatives in the space provided. ***Below each question, you are provided with a hint as to how to answer the question.*** Also feel free to write helpful comments, where appropriate, in the margins.

SESSION 1: PROFILE OF MANAGERS

1. **Sex**

   ○ Male ○ Female

2. **Age Range** Choose One

   ○ 18 – 30 ○ 41 - 50
   ○ 31 – 40 ○ 51 - 60

3. **Educational Experience**

   Choose One

   ○ Senior High School
   ○ College Degree ○ Polytechnic Degree
   ○ Masters Degree ○ Doctorate Degree

4. **Position at work**

Please, type your position in the space provided below

5. **Years of work Experience** Choose One

   ○ 1 – 5 ○ 21 - 25
   ○ 6 – 10 ○ 26 - 30
   ○ 11 – 15 ○ 31 - 35
   ○ 16 – 20 ○ 36 - 40

SESSION 2: PROFILE OF SUPERMARKET

6. **What is the range of your company's annual sales for the past three years?**

Choose one

GH¢ ○ 0.5million - GH¢ 2million ○ GH¢4.1million - GH¢6million

○ GH¢2.1million - GH¢4million ○ GH¢6.1million - GH¢8million

○ Other, please specify ○ GH¢8.1million-GH¢10million

7. What is the total employee of your company?

Choose one

○ 10 – 100 ○ 201 - 300

○ 101 – 200 ○ 301 - 400

○ Other, please specify ○ 401 - 500

8. How old is the company?

Choose one

○ 1 – 10 ○ 21 - 30

○ 11 – 20 ○ 31 - 40

○ Other, please specify ○ 41 – 50

9. What is the nature of your company's product(s) or service(s)?

Please write in the space below. If your product(s)/service(s) are many use a word or phrase to describe all.

SESSION 3: WORKING CAPITAL POLICY

10. Does your firm have an overall policy for the management of its working capital?

Choose one

○ (a) Formal policy

○ (b) Informal policy

○ (c) No policy

11. Who sets the management policy for working capital (if there is one) for your supermarket?

Choose One

○ (a) Board of Directors

○ (b) President(CEO /M.D)

○ (c) Vice President/ Finance/Accountant

○ (d) Treasure

○ (e) Controller

○ (f) Other (please specify in the space provided)

12. **How would you describe your policy (if there is one) for the management of working capital?**

Choose One

- (a) Risk- avoiding
- (b) Risk-accepting
- (c) Situational
- (d) Changes over time

13. **How often is the management policy for working capital (if there is one) reviewed?**

Choose One

- (a) Monthly
- (b) Quarterly
- (c) Semi-annually
- (d) Annually
- • (e) Whenever Necessary

SESSION 4: CASH MANAGEMENT PRACTICES

14. **In transferring funds between the marketable securities portfolio and your company's cash account, how do you decide on the appropriate amounts?**

Choose One

- (a) Subjective judgments
- (b) Established guidelines
- (c) Cost balancing models
- (d) Other (please specify in the space provided)

15. **What overall strategy does your firm utilize with respect to managing your firm's portfolio of marketable securities? ***

Please Rank in order of their importance to you. Number the most important 1, the next 2, the next 3, and the least 4. If any of the options has no importance at all to you, please leave blank.

1. Buy and hold to maturity
2. Ad hoc decisions
3. Play the yield curve
4. Portfolio perspective

16. **What is the shortest interval of time for which your firm utilizes cash budgeting?**

Choose One

- Daily

- Weekly
- Monthly
- Quarterly
- Other (please specify in the space provided)

17. How do you manage your surplus cash?

You may choose more than One

- Invest in short term marketable securities
- Diversification
- Plough back into the business
- Acquire capital assets

18. What factors do you consider when choosing an appropriate investment method for short-term cash surpluses?

Please Rank in order of their importance to you. Number the most important =1, the next =2, the next =3, and the least=5. If any of the options has no importance at all to you, please leave blank.

- - -	1	2	3	4	5
The size of the surplus					
The ease with which an investment can be realised					
When the investment is expected to mature					
The risk and yield of the investment					
Any penalties which may be incurred for early liquidation					

SESSION 5: RECEIVABLE MANAGEMENT PRACTICES

19. With respect to managing ACCOUNTS RECEIVABLE, which of the following techniques do you use to decide on granting credit? *

Please Rank in order of their importance to you. Number the most important 1, the next 2, the next 3, and the least 4. If any of the options has no importance at all to you, please leave blank.

The "five C"s" of credit

Sequential credit analysis

Credit scoring

Other (please specify)

20. **In monitoring the payment behavior of your credit customers, which of the following measures do you find most useful? ***

Please Rank in order of their importance to you. Number the most important 1, the next 2, the next 3, and the least 4. If any of the options has no importance at all to you, please leave blank.

Account receivable Turnover

Collection period

Aging schedule

Other (please specify)

21. **What criteria do you utilize in evaluating proposed changes in the credit terms of your company?***

Please Rank in order of their importance to you. Number the most important 1, the next 2, the next 3, and the least 4. If any of the options has no importance at all to you, please leave blank.

1. Effect on firm sales
2. Effect on level of accounts receivable
3. Effect on level of firm profits
4. Effect on return on investment

SESSION 6: INVENTORY MANAGEMENT PRACTICES

22. **With respect to managing INVENTORY, how do you decide on the appropriate amounts to replenish your warehouses or other inventory storage points?**

Choose One

(a) Ad hoc decisions

(b) Industry guidelines

(c) Cost balancing models

(d)Computerized inventory control systems

(e) Other (please specify)

23. **In deciding on replenishment quantities for inventory PURCHASED by your company, which of the following parameters are considered? ***

Please Rank in order of their importance to you. Number the most important 1, the next 2, the next 3, the next 4. the next 5 and the least important 6 If any of the options has no importance at all to you, please leave blank.

1. Availability of parts and materials
2. Credit terms offered by your suppliers
3. Credit terms offered by your suppliers
4. Shortage costs
5. Inflationary effects
6. Other

SESSION 7: PAYABLE MANAGEMENT PRACTICES

24. With respect to managing ACCOUNTS PAYABLE, what do you estimate to be the annualized cost to your company of the trade credit obtained from your suppliers? (Thus, what is the annual cost associated with buying on credit)

Choose from

- ○ • Zero
- ○ • 1.0-5.9%
- ○ • 6.0-10.9%
- ○ • 11.0-14.9%
- ○ • Greater than 15.0%

25. What is your policy/practice with respect to cash discounts offered by your supplier?

Choose One

- ○ • (a) Always take the discount by paying on the discount date
- ○ • (b)Sometimes take the discount by paying on the discount date
- ○ • (c) Pay later than the discount date, but still takes the discount
- ○ • (d)Never takes the discount

26. To what extent is collateral a part of your short term loans?

Choose one

- ○ • Loans never require collateral
- ○ • Loans occasionally require collateral
- ○ • Loans always require a collateral

SESSION 8: FACTORS THAT DETERMINE THE CHOICE OF WCM PRACTICES

From question 27 to 30, select the factor(s) that influence your company's choice of working capital management practices.

27. External <u>MACRO</u> factors
Choose the alternative(s) that influence your choice of WCM practice

1=Most influential, 4=Least influential

- - -	1	2	3	4
Politics	○	○	○	○
Business and economic environment (knowledge)	○	○	○	○
Industries effect management	○	○	○	○
Legislation	○	○	○	○

28. External *MICRO* factors
Choose the alternative(s) that influence your choice of WCM practice

1=Most influential, 6=Least influential

- - -	1	2	3	4	5	6
Customer needs/requirements	○	○	○	○	○	○
Financing requirements/methods	○	○	○	○	○	○
Technology	○	○	○	○	○	○
Supplier influence/collaboration	○	○	○	○	○	○
Shareholders wealth maximisation	○	○	○	○	○	○
Competitors‟ effect	○	○	○	○	○	○

29. Internal <u>MACRO</u> factors
Choose the alternative(s) that influence your choice of WCM practice

1=Most influential, 6=Least influential

- - -	1	2	3	4	5	6
Management System/Method/Practice	○	○	○	○	○	○
Organizational behavior	○	○	○	○	○	○
Operation management /Supply Chain management	○	○	○	○	○	○
Investment policy	○	○	○	○	○	○

Management financial capability (knowledge)	○	○	○	○	○	○
Upstream collaboration	○	○	○	○	○	○
Outsourcing	○	○	○	○	○	○

30. Internal *MICRO* factors

Choose the alternative(s) that influence your choice of WCM practice in order of their importance to you. **1=Most influential, 4=Least influential**

- - -	**1**	**2**	**3**	**4**
Inventory management	○	○	○	○
Employees‟ financial capability (knowledge)	○	○	○	○
Credit policy/Collection management	○	○	○	○
Payable Management	○	○	○	○

SESSION 9: APPLICATION OF INFORMATION TECHNOLOGY AS A WORKING CAPITAL MANAGEMENT PRACTICE

31. Do you apply information technology (I.T) in your working capital management practices? Choose one

○ YES ○ NO

32. Do you consider Information Technology (I.T) useful in your working capital management practices?

- - -	Extremely Usefu	Very Useful	Useful	Somewhat Useful	Not Sure	Not Useful
Cash management practices	○	○	○	○	○	○
Account receivable practices	○	○	○	○	○	○
Account payable practices	○	○	○	○	○	○
Inventory management practices	○	○	○	○	○	○

SESSION 10: OUTCOME OF THE WCM PRACTICES EMPLOYED BY THE SUPERMARKETS

33. Do you face any of the following problems in your company?

- - -	Strongly Agree	Agree		Not Sure	Disagree	Strongly Disagree
Pressure on margins	○	○		○	○	○
Excessive debt	○	○		○	○	○
Weak competitive position	○	○		○	○	○
Poor cash flow	○	○		○	○	○
Low profitability	○	○		○	○	○
Shortage of capital To finance growth	○	○		○	○	○

34. Does your company experience any of the following effects?

- - -	Strongly Agree	Agree	Fairly Agree	Not Sure	Disagree	Strongly Disagree
Improved Liquidity	○	○	○	○	○	○
Improved Profitability	○	○	○	○	○	○
Improved competitive position	○	○	○	○	○	○
Improved shareholders value	○	○	○	○	○	○
Reduction in funds tied up in working capital	○	○	○	○	○	○
Unlocking of capital to finance growth	○	○	○	○	○	○

35. How would you describe your previous working capital management practices?

Choose One or more

- They were the same as our current WCM practices
- They were poor as compared to our current WCM practices
- They were better than the current WCM practices
- We were not conscious of our WCM practices