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DEPARTMENT OF ECONOMICS

FINANCIAL MANAGEMENT PRACTICES AND PROFITABILITY OF BUSINESS ENTERPRISES IN OBUASI.

A THESIS PRESENTED TO THE DEPARTMENT OF ECONOMICS IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN ECONOMICS.

BY

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DECLARATION

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

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ABSTRACT

Business enterprises play a key role in the growth of the Ghanaian economy. These enterprises contribute to the creation of jobs. However, to ensure survival and efficient operations, firms need to make enough profit on capital invested and ensure financial management practices.

This study therefore investigates the impact of financial management practices on the profitability of business enterprises in the Obuasi Municipality. The study focused on two financial management practices, working capital and capital budgeting management. Primary data was collected by using questionnaire from ninety-eight enterprises. The study found that business enterprises profitability (measured by using return on sales) is related to financial management practices. The study also revealed that working capital management has a positive and significant effect on the profitability of business enterprises. The study recommends financial managers or owner managers should pay much attention to their financial management practices due to its positive effect on profitability of the firm.

DEDICATION

This thesis is dedicated to my parents and Siblings for their prayers and support in my education.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

One functional area of management is financial management which determines the success of any business enterprise. Business enterprises face a lot of problems. This at times is due to the inefficient financial management and the level of uncertainty within the business environment.

In Ghana, the major cause of business enterprise failure according to Kawame (2010) is careless financial management. Profitability of a business is always affected when there is wrong financial decisions irrespective of the kind of manager whether owner- manager or hired-manager. Inefficient financial management can damage the profitability of a business enterprise coupled with the uncertainty in the business

environment.

In every business activity, financial management plays an integral role and for business enterprise to increase profitability there is the need for reasonable and logical financial management.

Many researchers have conducted studies on financial management like factors affecting financial management and financial management objectives but few studies have been conducted on how financial management practices impinge enterprises' profitability especially in Obuasi. In view of this the study sought to conduct an enquiry into how practices of financial management impinge on profitability of business enterprise in the Obuasi Municipality.

Two financial management decisions that were considered in the study were working capital and capital budgeting management. Working capital management is the enterprise's short-term asset and liabilities whereas Capital budgeting is the process of putting an enterprise's scarce resources into long-term investment (Ross, Westerfield & Jaffe, 2010).

Business enterprises provide 85 percent of employment in the manufacturing sector and contribute 70 percent to national gross domestic product (GDP). This supports the fact that business enterprises play a major role in economic growth and development, creation of employment and income generation (OECD, 1997) Business enterprises in Ghana contribute enormously to national gross domestic product (GDP) and employment in the informal sector. It creates employment and leads to the export of locally manufactured goods and services as well as helping the local government to generate tax revenues for national socio-economic development. These essential roles in the economy including the informal sector can be boosted if efficient financial management practices are adopted by business enterprises in the day-to-day running of their businesses.

Though business enterprises contribute to the economic growth of every country, there are serious problems that business enterprises go through. Among these include inadequate capital for the expansion and renovation of equipment and technology, low productivity and competitiveness, little experience when it comes to marketing, financial and production management but out of the problems, inadequate resources for financing and financial management experience is the most serious issue (Ebashi, Sakai & Takada, 1997). Profitability of business enterprises will be strengthened when businesses manage their finances efficiently.

Obuasi town is one of the commercial centres found in Ashanti region, Ghana. According to the National Board for Small Scale Industries (NBSSI), there are about three hundred and ninety- seven business enterprises in Obuasi town. This number of enterprises is growing at an accelerated rate. Though their number is growing, ineffective financial management practices are presumed to persist in enterprises located within Obuasi. This implies that some of the enterprises in Obuasi are not profitable and this makes it difficult for the enterprises to contract credit facilities from financial institutions because financial institutions will always want to grant credit facilities to profitable enterprises.

1.2 Problem Statement

Financial matters of businesses are controlled by the owners or at times by managers appointed with the assistance of accountants. Owners or managers however have little formal training in financial management, thus affecting the profitability of the enterprise. Financial management has recently become a major problem for most businesses in Obuasi.

According to Filbeck and Krueger (2005), the success of every business enterprise depends on the financial managers' ability to manage the business enterprises' finances efficiently. Among the problems that business enterprises face in Obuasi, financial management is paramount among them and as a result of this the profitability of the enterprises is affected. In view of this, the study sought to investigate how financial management practices impinge profitability of business enterprises and to determine the appropriate measures that will improve the profitability of business enterprises in Obuasi by way of using efficient financial management techniques.

1.3 Objectives

The main objective of this study is to look into the effect of financial management practices on profitability of business enterprises.

Specific objectives include:

1. To gather information on the practices of financial management and business enterprises' profitability.
2. Investigate the effect of financial management practices such as capital budgeting and working capital management on profitability of business enterprise.

1.4 Research Questions

1. What are the evidence of financial management practices and the profitability of business enterprises?
2. Is there any impact of financial management practices on business enterprise's profitability?

1.5 Justification

There are gaps found within the knowledge of financial management in the sense that there is little empirical evidence from less developed economies like Ghana together with the lack of investigation of the financial management's impact on profitability of business enterprises. Because of these gaps, research into the relationship between financial management and profitability of business enterprises is justified. There is also the need to use empirical data from less developed economies to examine how financial management relates to profitability. Thus previous studies on financial management will be extended by way of centering on financial management practices on business enterprises' profitability using empirical evidence from Obuasi. Financial management practitioners will only update financial management practices when there is evidential proof on how financial management practices affect profitability of business enterprises.

Also business enterprise owners are concerned about the profitability of the enterprise. Therefore studying how financial management practices affect business enterprises' profitability will aid in understanding enterprises' financial management,

Another issue that justifies research into the consequences of financial management on profitability is due to the fact that banks at times become reluctant to give out capital to business enterprises because of the fear that the profitability of the enterprise cannot make up for the loans. So this study will inform the decisions of the financial institutions on granting loans to business enterprises by evaluating the profitability capacity of enterprises.

1.6 Scope of the Study

This empirical research is limited to business enterprises in Obuasi because of the limited funds and time to cover business enterprises in the whole Ashanti region. Theories of financial management will be tested using data from Obuasi and this will expand the scope of theoretical applications. Therefore business enterprises in Obuasi are used as a representative of business enterprise in Ashanti region.

The focal points of this research will be capital budgeting and working capital management and their impact on the profitability of business enterprises in Obuasi.

1.7 Organization of the Study

Chapter two reviews literature on the practices of financial management and profitability of business enterprises. Chapter three discussed research methodology used for the study. Chapter four analyses the collected data and gives the presentation of the findings of the study. Chapter five commented on the conclusions and the recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 The Concept of Business Enterprise

Any type of activity that involves the production of goods and services with the aim of earning profit is an enterprise. In a wider context, it is concerned with any type of business with the aim of generating revenue through the sales of products. (WiseGeek)

All business enterprises whether small, medium or large have the same basics of financial management irrespective of how the businesses are organized. The operations of an enterprise are affected by the legal structure of the enterprise and thus should be given recognition. Business enterprises have four forms. These are sole proprietorship, partnerships, corporations and limited liability companies including limited liability partnership. From numerical sense, most businesses are sole proprietorships (Brigham & Houston, 2002, p6.). The structure of business enterprises' in Ghana is dependant on the size of the business. Business enterprises are categorized into small, medium and large based on the size.

National Board for Small Scale industry (NBSSI) defines small and medium enterprises in terms of non-current asset and the total number of employees. Enterprises with not more than nine employees are classified as small enterprises with the asset base of not exceeding ten million Ghana cedis.

Another way of categorizing business enterprise is based on the kind of industry. The industrial areas include trade and services, mining, manufacturing, construction, hotels, finance and banking, electricity, agriculture.

2.2. Financial Management for Business Enterprise

This subsection gives the hypothetical description of financial management for business enterprises from the literature. It also reviews the specific areas of financial management in literature. This section has been divided into four main subsections. The first subsection contains the definition of business enterprise. Subsection two discuses the objectives of financial management. Financial managers or owner managers' major decisions will be reviewed in subsection three and the last subsection will summarize the specific areas of financial management.

2.2.1 Definition of Financial Management

Financial management practices are the focal point of the study and how it affects the profitability of business enterprises. There is therefore the need to explain the concept of financial management more clearly before probing into the connection between financial management practices and the profitability of business enterprises.

McMahon, Holmes, Hutchinson and Forsaith (1993, p3) gave a definition of financial management as a way of marshalling and using roots of funds. Financial management concerns itself with acquiring, financing and management of assets with an ultimate goal in mind. But Meredith (1986) had a different opinion concerning financial management. To him financial management has to do with all aspects of management that does not only involve sources and how the finances are used but include the implication of marketing, investment projects, production or the position taken by the personnel as well as how the enterprise performs in totality.

Thus, Financial Management mainly concerns the management of funds in the enterprise effectively.

From the above definitions there was no emphasize on the targets/objectives of the financial management though they emphasized areas of financial management.

2.2.2 Targets of Financial Management

The intended goals of financial management are the foundations upon which the efficiency and effectiveness of financial management are evaluated and compared.

The efficient and effective acquisition and use of finance in any enterprise leads to proper employment of the enterprise's finance. This is the basic and fundamental aspect of financial management. Hence the intended goal of financial management should be determined by the financial manager. The intended goals of financial management are grouped into two main components and they are maximization of profit and wealth.

Maximization of profit: the main target of any economic activity is to earn profit. This means that businesses are established mainly for profit. Profit gives an indication of the efficiency of the business.

Maximization of wealth: has to do with the maximization of the current value of enterprises or the capital gains of shareholders. It implies making good financial investment decisions which take into account any risk factor that could disrepute or outbalance the expected benefit. (Paramasivan & Subramanian, 2009 pp23-26). English (1990) added growth as one of the targets of financial management to the two targets given by Paramasivan & Subramanian (2009). He emphasized how the three targets relate by putting them in a diagram as represented below.

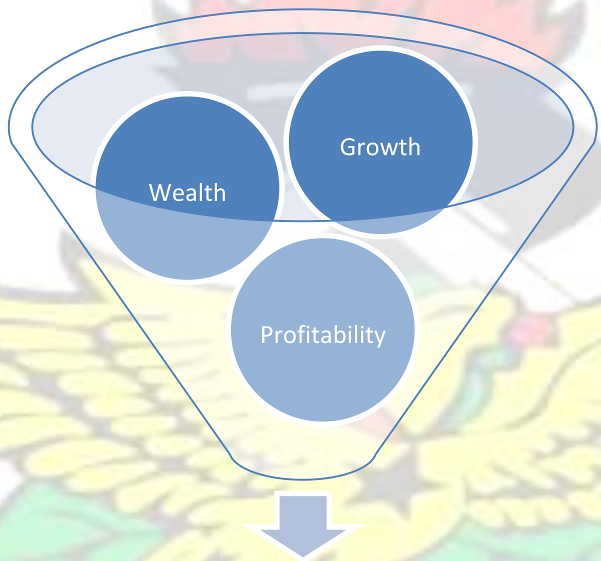

Figure 2.1: Financial management objectives.

Source: Acquired from financial management for businesses, English (1990)

Whether the enterprise has the owner as the manager or a hired-manager, targets of financial management should be remembered in any decisions.

2.2.3 Financial Management Decisions

Researchers who have researched into financial management have no difference when it comes to the thoughts of key financial management decisions. Ross, et'al (2010) has shown three levels of decisions the financial manager of a business enterprise has to make. These include decisions concerning budgeting, financing as well as decisions that involve short-term finance. Likewise, Ang (1992) in his research came out with three major levels of financial decisions which include decisions that have to do with investment, financing and dividend.

According to McMahon (1995) the balance sheet of the enterprise can be examined to identify the financial management decisions. A lot of decisions can be made on the items in the balance sheet of the enterprise. However, financing, investment and distribution of profit are the decisions that can be made (McMahon, 1995).

2.2.4 Key Areas of Financial Management

From literature, many authors based on their emphasis have divergent views on the key domains of financial management. The key domains that have been frequently raised and analyzed by the relevant researchers including Walker & Petty (1978), Cohen (1989), English (1990) & Barrow (1988) will be reviewed.

McMahon (1995) examined the key aspects of financial management that include all the domains that connect the information provided on the balance sheet of the enterprise. The coverage of financial management are effective handling of short-term capital, superintending sources of finance, planning financial structures, planning and evaluating profitability and managing long-lived assets.

Walker and Petty (1978) defined the key domains of financial management to include short-term capital management, sources of financing, planning, financial leverage and investment decision-making.

Cohen (1986) used supervision of short-term capital and financial management instruments such as measurement of profitability, break-even analysis and ratio analysis.

English (1990) laid much emphasis on growth liquidity and profitability.

Liquidity management, profitability management and management of growth should be the concerned areas of financial management.

However, covering all the specific areas of financial management is not the purpose of this empirical research. Only working capital management and capital structure management will be examined.

2.3. Financial Management Practices

Business enterprise and financial management had been reviewed in the previous section. In this section, practices of financial management in counties that have developed such as Canada, UK, USA and Australia will be reviewed.

The concept of the practices of financial management will be explained amidst the discussion and review of some aspects of financial management practices which have effect on profitability of business enterprises.

2.3.1 The Concept of Financial Management Practices

A lot of researchers have developed a concern within the sector of financial management practices. These researchers came out with diverse aspects of financial management practices premised on their objectives. Research conducted in UK, USA and Australia by McMahon et'al (1993) including McMahon (1998) revealed the aspects of the practices of financial management to include accounting information system, capital budgeting management and management of capital structure which involve debt or equity financing, management of working capital and financial planning and reporting analysis.

However, the purpose of this empirical research is to appraise critically selected financial management practices that impinge profitability of business enterprises or financial management practices that is in sync with business enterprise profitability. In view of this, the re-examination will be on working capital management and capital budgeting management.

2.3.2 The Context of Working Capital (Short-Term Financial) Management

This subsection looks back on the management practices of an enterprises' working capital which has receivables and payable, management of cash and supervision of inventory as the main components. The investment in short-term asset of the enterprise, short-term securities, cash, accounts receivables and inventories defines working capital. (Western & Brigham, 2005).

According to modern theories, working capital has alternatively two strategies. These strategies are aggressive funding strategy and conservative funding strategy. The literature contains a prolonged disputation on the risk-return trade-off that exists between different policies of short-term finance (Gitman, 2005; Moyer et al, 2005; Brigham & Ehhardt, 2004). Aggressive working capital strategy: This is a financing strategy that an enterprise uses short-term debt to finance its seasonal capital requirement. Conservative working capital strategy: The enterprise use long-term debt to finances its permanent and seasonal capital requirements. (Gitman, 2012, pp600-606). Whereas higher returns and risk are associated with aggressive working capital management, lower risks and returns are associated with conservative working capital management (Gardner et al, 1986; Weinrand & Visscher, 1998).

According to Brealey et'al (2006, p813), in order to supervise working capital expeditiously and effectively, there is the need for businesses to focus their attention on four distinct short-term assets including accounts receivables, inventories, cash and short-term securities.

Cash management is the expeditious management of cash in a business which aims at causing cash to work speedily and to maintain the cash in operations that yield income. Concerning practices of cash management, Grablowsky & Grablowsky ((1978)) including Rowell (1980) used sixty-six small scale enterprises from industries situated in and around Norkfolk, Virginia to conduct a survey which was concerned with the cash management practices. From the results, it was revealed that cash flows were not predicted by sixty-seven percent of the total respondents. The answer to the way the enterprise determine cash level, it was found that below ten percent of enterprises reported that they use any kind of qualitative technique. Most of the enterprises hold cash as a constant ratio for expenses that are projected, predicted sales or expected purchases. Seventy-one percent of the enterprises answered that they don't record cash surpluses. Only twenty-

three percent of the enterprises recorded long-term surpluses. Thirty percent of the responding enterprises answered that they invest the excess cash in the capital market securities that yield returns. But the common investment included shares, commercial papers, certificate of deposits, repurchase agreement, treasury bills,
etc.

When enterprises sell their goods on credit, accounts receivable is accrued to the enterprises. The enterprise sometimes receives cash in weeks, or even months depending on the terms of payment. Enterprises through credit managing that is making decisions regarding credit analysis, terms of sale and decision and collection policy etc, can manage their accounts receivables. An enterprise can achieve a significant advantage in working capital if it improves the efficiency of collection. A too aggressive solicitation of cash harms the sales of the enterprise which has the potential of causing a conflict between solicitation of cash and sales (Brealey et'al, 2006 pp814-819).

2.3.3 The Context of Capital Budgeting Management

Shim and Siegel (1994) and Stenzel and Stenzel (2003) defined capital budgeting as the best available option and financing decision for long-term investment that maximizes owner's wealth. Gitman, (2012, p390) defined capital budgeting as the process of evaluating and selecting long-term investments that are consistent with the goal of maximizing owner's wealth.

Capital budgeting is also defined by Bremer, Garrison and Noreen (2005) as an investment analysis done by financial managers to ascertain which proposal has the best rate of return in future cash flows.

Contemporary financial management theory has it that maximization of shareholders' wealth is the ultimate goal of every enterprise and in order to achieve this goal, there is the need for some decision-making processes such as investment decisions (this is to make sure that current investment opportunities are fully utilized, which results in appreciable future rate of returns for the enterprise), the financing decisions (this aids the investment decision by taking a decision on possible funds available that can be used in profitable investment prospects for the future) and the decision on the dividend policy (which supports the firm's financing decision by deciding the percentage of the enterprise's earnings that will be retained for investment in the future or the percentage that will be given to shareholders as dividend). (Correia, Flynn, Uliana & Wormald, 2001; Drury, 2004; Hansen & Mowen, 1997; Parkison & Ogilvie, 2002; Peterson & Fabozzi, 2002)

These decisions show that capital budgeting is essential as far as business enterprise's profitability is concerned. This means that for maximizing shareholders' wealth, capital budgeting should be given much attention. One thing that also makes capital budgeting critical is that at times it is not easy to reverse an investment that has already been undertaken without a cost. There is always a sunk cost.

According to Ross et'al (2010), techniques used in capital budgeting include net present value, internal rate of returns, discounted payback, profitability index, payback period and accounting rate of return.

Brigham (1992) opined that long term investment may be crucial to lesser enterprises as compared to larger enterprises because the smaller enterprises lack access to funds from the public markets. Smaller enterprises may not have collateral to access funds from the capital markets where funding can be obtained for more than a year.

2.4 Business Enterprise Profitability

This section is categorized into three main subsections. The first subsection probes the significance of profitability and the role it plays in the development and survival of business enterprise. Measurement of profitability of business enterprises will be reviewed in subsection two and the last subsection contain the analysis of factors that influence business enterprise profitability.

2.4.1 Importance of Profitability

The most significant intended aim of financial management is profitability because the ultimate goal of every enterprise is to increase the value of shareholders wealth (McMahon, 1995). In investigating the success or failure of an enterprise, profitability plays a major role in the determination. The enterprise at the initial stage of the investment may not make any profit because a lot funds or capital is pumped into the establishment of the business. The business may gain profit when it matures.

In view of the essential nature of profitability, Edmister (1970) like other authors have proposed that small enterprises must focus on profitability. Jen (1963) ascertained that profitability is an important causal factor of a small enterprises credit risk. Thomas and Evanson (1987) also stressed that sales generation should not be the only concern of enterprises but profit generation should also concern enterprises because profit is essential in the survival of every enterprise.

Davidson and Dutia (1991) indicated that low profits contribute to undercapitalization problems in the sense that it can leads to smaller funds as retained earnings and will therefore make the enterprises to rely on external capital.

2.4.2 Measurement of Profit

Among the attributes of a business enterprise, profitability is the one that is difficult to conceptualize and measure (Ross et'al 2010). Profit is either seen as accounting profit or economic profit. Accounting profit only considers the difference between total revenue and total expenses. The only problem with this kind of profit is that it ignores risk. Economic profit solves this problem by considering the opportunity cost in addition to the difference between total revenue and total expenses. According to the economists, enterprises only make profit if and only if the enterprise's profit is higher than what investors are expected to gain severally in the capital market.

There are many measures of profitability. As a group, these measures enable analysts to evaluate the enterprises' profit with respect to a given level of sales, a certain level of assets, or the owner's investment. Owners, creditors and management pay close attention to boosting profits because of the great importance the market places on earnings. To measure profitability of business enterprises, return on equity (ROE), return on sales (ROS) and return on assets (ROA) are used as the key measurement ratios. Return on equity measures the return earned on the common stockholders' investment in the enterprise. Generally, the owners are better off the higher is this return. Return on sales measures the percentage of each sales dollar remaining after the enterprise has paid for its goods. The higher the return on sales, the better. Return on asset measures the overall effectiveness of management in generating profits with its available assets. The higher the firm's return on total assets the better. (Gitman, 2012, pp79-80)

2.4.3 Factors Influencing Profitability

Business enterprises profitability is influenced by factors such as revenues, capital and cost which depend on the profitability measures provided by Ross et'al (2010). Marketing, development of new products and management of sales determines the revenue but practices of financial management affect both the capital and the cost (Kieu, 2004).

Burns (1985) conducted research into factors that affect the profitability of business enterprises. He pointed out that different economic factors could affect enterprise's profitability. The research conducted by Lev (1983) showed that the size of the product, product type, degree of capital intensity including degree of competition affect profit variability measured over time.

Generally, many factors affect business enterprises' profitability. Dupont analysis revealed that factors that affect business enterprises' profitability are taxes, inventory days, leverage, fixed asset turnover, operating expenses, gross margin, interest accounts receivables ad coverage (Elsemann, 1997).

2.5 Empirical Literature Review

2.5.1. The Context of Working Capital Management

On the practices of managing inventory, D'Amboise and Gasse (1980) researched the usage of management methods in modest shoes and plastic making enterprises in Canada.

The study reported that Sixty-four percent of shoe industries and sixty-five percent of plastic enterprises utilized formal inventory control systems.

Apart from the above authors, Peel and Wilson (1996) researched management practices of short-term capital of modest enterprises located in North of England. The researcher did not give a distinction between management of cash, receivables, inventory and management of payables but rather dealt with the components of working capital.

2.5.2 The Context of Capital Budgeting Management

Block (1997) sampled sixty-four enterprises and used discounted cash flow as the basic technique for investment analysis. It was revealed that only nine percent exploited a conception that is intimately linked to the weighted average cost of capital as the hurdle rate. Funding a specific project comes with a cost and most of the enterprises use the cost as a cut-off point. But others depend on concepts like historical rate of return or a cut-off point that is determined. The reason why most enterprises do not use weighted cost of capital was the fact that smaller enterprises encounter some difficulties when it comes to the estimation of the equity cost. They looked on to contractual obligations and not the trade-off related to earnings that have been retained.

Previous researchers have paid much attention to both working capital and capital budgeting management. Though there is a thorough description of working capital and capital budgeting management of business enterprises, there is no investigation on the relationship between the profitability of business enterprises and financial management practices. There is no test of association between business enterprises profitability and financial management practices to date.

CHAPTER THREE

RESEARCH METHODS AND THEORETICAL FRAMEWORK

3.1 Research Design

This study is an explanatory non-experimental seeking to establish the effect of financial management practices on the profitability of business enterprises. The study looks into the effects of financial management practices on profitability using a cross-sectional survey of enterprises in Obuasi.

3.2. Data Collection

3.2.1 Primary Data

Primary data will include data that was gathered from the enterprise through the administering of questionnaire and interviews. The questionnaire was used in situations where personal interviews were not possible. On the collection of data on financial management practices, open-ended questions were used so that respondents would have the freedom to express their view together with pre-coded questions in which answers would be given to respondents to select what best describes the enterprise. Interviews were used to gather information that is not covered by the questionnaire especially on the financial ratios used by the enterprise.

3.2.2 Validity and Reliability

This study applied Cronbach's Alpha coefficient to measure the internal consistency of the responses. When the values of the Cronbach's Alpha are high, then the reliability of the variables data collection is also high. The Cronbach's Alpha was calculated using SPSS and the value was found to be 0.904 with 31 items and this gives an indication of a good internal consistency. The Cronbach's Alpha of Working Capital and Capital Budgeting management are 0.734 and 0.906 respectively.

3.3 Sampling Technique

Probability sampling is adopted for this empirical study. The four main sampling techniques based on probability sampling method are simple random, systematic, stratified, cluster and multi-stage sampling. (Saunders, Lewis & Thornhill, 2009, p222).

The sampling method selected is premised on the principle that the sample selected should reflect the population, and based on this a stratified sampling method is selected because there are different types of business enterprises such as manufacturing , trading, etc. In all one hundred and thirty-two enterprises were selected because of time and funds' limitations.

3.4 Data Analysis Technique

Choosing data analysis technique is dependent on the type of questions to be responded to, the number of variables and the measurement scale. (Saunders, et'al, 2009).

The two main questions for this study involved how to discover financial management practices in Obuasi and the second is to find out if there is a positive effect of financial management practices on profitability of enterprises and how to evaluate the effect of financial management practices on the profitability of business enterprises.

In this study, descriptive statistics and multiple regression analysis together with bivariate data analysis were used to analyze the data that was collected. Investigations into financial management practices of business enterprises will be carried-out using descriptive statistics. The data was summarized calculating frequency distribution, averages and percentage distribution. Association among the independent variables was measured using Pearson's correlation coefficient.

3.5 Models and Hypotheses

To conduct an enquiry into the effect of financial management practices such as capital budgeting and working capital management on profitability of business enterprises, linear regression analysis is used. The linear regression model equation is shown below.

$$Y = b_0 + b_1 WCM + b_2 CBM + u_i \text{...} equation 1$$

Where

Y = Profitability

WCM = Working Capital Management CBM

= Capital Budgeting Management

b_o = intercept b_1 and b_2

are coefficients U_i =

stochastic term

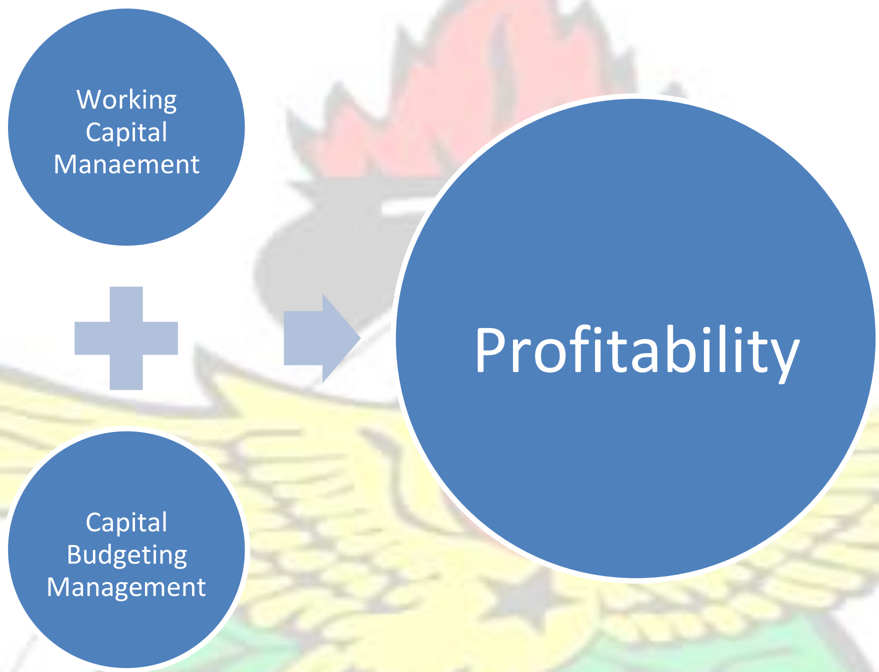

Fig 3.1 Conceptual Framework

The following hypotheses will be tested:

H_1: Capital Budgeting has a positive relationship with profitability of business enterprises

H_2: Working Capital Management as a financial management practice has a positive relationship with profitability of business enterprises.

3.6 Definition of Variables

3.6.1 Working Capital Management:

There is the need for managers or owner-managers to comprehend the management of short-term capital so that current assets and current liabilities would be managed efficiently. The two strategies of working capital according to Gitman & Zutter (2012, p606) are aggressive and conservative strategy.

1. Aggressive working capital strategy: This is a financing strategy that an enterprise uses short-term debt to finance its seasonal capital requirement.

2. Conservative working capital strategy: The enterprise use long-term debt to finances its permanent and seasonal capital requirements.

3.6.2 Capital Budgeting Management

Capital budgeting is the process of appraising and picking out long-term investments that is in consonance with the goal of increasing the value of owners. The two main expenditures under capital budgeting is capital expenditure (the funds invested in the enterprise is expected to yield profits over a period of time not less than one year) and operating expenditure (the benefit that would be received after the initial funds outlay is within one year). Techniques of Capital budgeting include payback period, net present value and internal rate of return.

Payback period talks of the amount of time that the enterprise needs to recoup its initial capital/funds invested. This is calculated from the cash flow. The difference between the value of a project and its cost constitute net present value. A project's rate of return is the discount rate that gives a zero net present value. This discount rate is known as the internal rate of return or discounted cash flow. (Brealey et'al, 2013, pp117-127) **Profitability Index**

Profitability index (PI) is the variations of the net present value. If a project has initial cash outflow accompanied by cash inflows, the profitability index becomes the present value of cash inflows divided by the initial cash outflow.

3.7 Description of Variables

The two main variables are dependent and independent. Profitability which is the dependent variable was measured using return on assets and return on sales, The independent variables used in the study included working capital and capital budgeting management.

3.7.1 Profitability Measures

Return on sales: After an enterprise has paid for all its goods, return on sales gives a measure of the remaining percentage of sales remaining.

Return on assets: This gives a measurement of the overall effectiveness of management in accruing profits with its available assets.

3.7.2 Independent Variables

Account receivables: When an enterprise sells its product on credit, it accrues accounts receivables. The enterprise receives cash in weeks or months depending on the terms of payment.

Inventory management: Accounting the value of an enterprise's current asset including raw materials and works in progress and finished goods.

Cash management: It refers to the collection, handling and investing cash. Enterprises find it prudent to hold enough idle cash for the purpose of liquidity so that the enterprise would not have to raise capital at a short notice.

Bad debt: A debt that cannot be collected. This normally occurs when all the attempts made by the enterprise to retrieve the debt after selling a product on credit become futile.

Credit policy: The aim of accounts receivable management is to collect accounts receivable as quickly as possible without losing sales from high-pressure techniques. Achieving this aim encapsulates three credit policies; namely, credit selection, credit terms and credit monitoring. Credit selection involves application of techniques for determining which customers should receive credit. Credit terms are the terms of sale for customers who have been extended credit by the enterprise. Credit monitoring is an ongoing review of the enterprise's accounts receivable to determine whether customers are paying according to the stated credit terms (Gitman, 2012. pp387-640).

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CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Sample Descriptions and Characteristics of Business Enterprises

4.1.1 Sample Description

The list given by the Business Advisory Centre (BAC) of National Board for Small Scale Industries and Ghana Revenue Authority in Obuasi revealed one hundred and ninety-seven manufacturing enterprises and two hundred trading enterprises. By using random digit table with 5 percent margin of error, 196 enterprises were sampled and out of this total number of trading and manufacturing enterprises, ninety-nine and one hundred manufacturing and trading enterprises were chosen respectively. These figures were arrived at by the use of a sampling fraction of $\frac{1}{2}$. The active responsive rate was fifty percent so the sample size declined to ninety-eight (98) enterprises.

Table 4.1: Structure of business enterprises sampled

		No. of enterprises	Percentage
Type of business enterprise:	Trading	37	37.8
	Manufacturing	61	62.2

Table 4.1 Shows that sixty-two percent of the enterprises in the sample are manufacturing enterprises whilst thirty-eight percent are trading enterprises.

4.1.2 Characteristics of Business Enterprises

Table 4.2: Characteristics of business enterprises

	Number of enterprises	Percentage (%)
Age of business enterprise: Less than six years	18	18.3
More than six years	82	81.7
Annual sales: less than 1,000,000 Ghana cedis	53	54.1
1,000,000-5,000,000 Ghana cedis	42	42.9
more than 5,000,000 Ghana cedis	3	3.1
Total assets: less than 1 million Ghana cedis	77	78.5
1-5 million Ghana cedis	20	20.4
more than 5 million Ghana cedis	1	1.1
Employees: Less than 15	95	96.9
More than 15	3	3.1

From Table 4.2, eighteen percent of the responding enterprises have been in business less than six years and eighty-two percent have operated more than six years. Also fiftyfour percent of the enterprises have annual sales les than GH₵1m; forty-three percent have between GH₵1m and GH₵5m and only three percent record more than GH₵5m as annual sales.

Seventy-nine percent of the responding enterprises have total asset less than GH₵1m. Twenty of the respondents have total asset between GH₵1m and GH₵5m and only one percent have total asset more than GH₵5m. Ninety-seven percent of the enterprises have employees less than fifteen and the enterprises that have employees more than fifteen are just three percent.

4.2 Descriptions of the Findings of Financial Management Practices

4.2.1.1 Cash Management Practices

Table 4.3: Cash budget preparation

	No. of enterprises	Percentage
Frequency of cash budget preparation: Never	6	6.1
Rarely	5	5.1
	52	53.1
Sometimes	24	24.5
Often	11	11.2
Always		
Period for cash budget preparation: Never	7	7.1
Weekly	14	14.3
Monthly	57	58.2
Quarterly	14	15.3
Semiannually	4	4.1
Annually	1	1.0

There is an indication from Table 4.3 that thirty-six percent of the respondents prepare cash budgets often or always. The same table shows that about six percent of respondents never prepare cash budget. Table 4.3 also shows that fifty- eight percent of the respondents prepare monthly cash budget whereas fourteen percent prepare cash budget weekly, four percent and one percent prepare cash budget semiannually and annually respectively. This information shows that most of the enterprises prepare cash budget monthly.

Table 4.4: Determination of Cash balance		
	Number of enterprises	Percentage (%)
Determination of the target cash balance: Never	10	10.2
Rarely	18	18.4
Sometimes	54	55.1
Often	12	12.2
Always	4	4.1
Basis of cash balance determination: Cash management theories	1	1.0
Historical data	3	3.1
Owner's/manager's experience	93	94.9
others	1	1.0

On the issue of the determination of cash balance, it is clear from Table 4.4 that sixteen percent of the respondents often or always determine cash balance, whereas twenty-nine percent never or rarely determine the target cash balance and this gives the confirmation that most business enterprises pay little attention to the policy of cash balance. The table also reveals that about nine-five percent of the respondents did indicate that the determination of the cash balance is based on the experience of the owner/manager. There are an insignificant percentage of the respondents that applies theories of cash management determination. This shows that cash management theories have not been fully enforced.

Table 4.5: Surplus or shortage of cash

		No. of enterprises	Percentage
Occurrence of cash shortage:	Never	10	10.2
	Rarely	5	5.1
	Sometimes	78	79.6
	Often	3	3.1
	Always	2	2.0
Occurrence of cash surplus:	Never	4	4.1
	Rarely	56	57.1
	Sometimes	31	31.6
	Often	5	5.1
	Always	2	2.0
Investment of cash surplus:	Bank deposit	22	22.4
	Treasury bill purchase	6	6.1
	No investment	65	66.3
	Others	5	5.1

About fifteen percent of the businesses have never or rarely been on the shortage of cash, only five percent of the respondents always or often have cash that is not sufficient for their activities/operations (Table 4.5). Conversely, respondents who answered that they sometimes, always or often have cash surplus constitute thirty-nine percent. Sixtyone percent never or rarely have cash surplus.

It is surprising to notice from Table 4.5 that about sixty-six percent of the respondents do not invest their cash surplus to earn profit. Twenty-two percent put their cash surplus in their bank account so that they will earn interest on their cash deposit. Only six percent put their cash surplus in the money market to purchase money market instruments such as treasury bills.

In summary thirty-six percent of the responding business enterprises often or always prepare cash budget and most of the enterprise prepare and review cash budget on a monthly basis. Only five percent of the respondents are often or always in shortage of cash whiles seven percent often or always record cash surplus but only twenty-two of the enterprises put their cash surplus into their bank account whereas almost sixty-six percent surprisingly do not invest their cash surplus to earn profit.

4.2.1.2 Receivable Management Practices

Table 4.6: Sales on credit and credit policies

		Number of enterprises	Percentage (%)
Sell product on credit:	Never	5	5.1
	Rarely	9	9.2
	Sometimes	63	64.3
	Often	11	11.2
	Always	10	10.2
Credit policy for customers :	Never	11	11.2
	Rarely	3	3.1
	Sometimes	17	17.3
	Often	52	53.1
	Always	15	15.3

Table 4.6 reveals that twenty-one percent of the responding business enterprises often or always have their product being sold on credit, only fourteen percent rarely or never sell their products on credit. Out of the enterprises sell their product on credit, only sixtyeight percent often or always set up credit policy on their customers whilst eleven percent of the respondents have no credit policy for their customers but whoever wants to buy on credit from the enterprise is permitted to do so.

Table 4.7: Frequency of reviewing accounts receivable levels and bad debt and percentage of bad debt to sales

		No. of enterprises	Percentage
Review receivable levels:	Weekly	14	14.3
	Monthly	72	73.5
	Quarterly	7	7.1
	Annually	5	5.1
Review bad debts:	Never	4	4.1
	Weekly	21	21.1
	Monthly	65	66.3
	Quarterly	3	3.1
	Semiannually	3	3.1
	Annually	2	2.0

Bad debt percentages:	Less than 5%	45	45.9
	5-10%	39	39.8
	10-20%	5	5.1
	More than 20%	2	2.0
	Don’t know	7	7.1

The next aspect of the receivable management practices are percentage of bad debt to sales and how receivables are reviewed by the enterprise. The data collected reveals that seventy-four percent and sixty-six percent of the responding business enterprises review the level of receivables and bad debt respectively on a monthly basis. However, about four percent of the respondents never review bad debt. The analysis of the bad debt to sales in terms of percentage shows that eighty-six percent of the respondents have bad debt that is not more than ten percent of their sales. Only seven percent of the responding enterprises answered that they have no knowledge about the ratio of their dab debt to sales. This is evident from Table 4.7.

In summary, twenty-one percent of the enterprises often or always have their products sold on credit and sixty-eight percent of the responding enterprises have a credit policy for their customers. Majority of the enterprises review their accounts receivable levels and bad debts on a monthly basis which shows that enterprises control and manage the bad debts at a low level.

4.2.1.3 Practices of Inventory Management Questions posed to respondents on inventory management included how enterprises prepare and review inventory budgets, determination of the level of inventory.

Table 4.8: Frequency of reviewing inventory levels and preparing inventory budgets and inventory level determination

		Number of enterprises	Percentage (%)
Review inventory levels:	Never	3	3.1
	Rarely	5	5.1
	Sometimes	8	8.2
	Often	35	35.7
	Always	47	48.0
Prepare inventory budgets:	Never	2	2.0 2
	Rarely	2.0	
	Sometimes	25	25.1
	Often	31	32.5
	Always	3 8	38.8
Basis of inventory : level determination	historical data	2	2.0
	Owner's/manager's experience	96	98.0

Table 4.8 reveals that eighty-four percent of the enterprises within the sample often or always review the inventory levels and seventy-one percent of the responding enterprises often or always prepare budgets for inventory. Only four percent never or rarely prepare budgets for inventory. Ninety-eight percent of the respondents responded to the question on the level of inventory determination that their inventory level determination is based on the experience of the owner. The issue here is that almost all the enterprises have limited application of inventory theories.

4.2.2 Capital Budgeting Management Practices

Responding enterprises were quizzed on how frequent they evaluate investment projects and the efficiency level of reviewing the use of the fixed asset as well as the kind of methods they use to evaluate projects.

Table 4.9: Frequency of evaluating investment projects, reviewing efficiency of using fixed asset after use and the method of evaluating investment projects

		No. of enterprises	Percentage
Evaluates projects before making investment decisions:	Never	5	5.1
	Rarely	8	8.2
	Sometimes	32	32.7
	Often	28	28.6
	Always	25	25.5
Review efficiency of fixed asset after investing:	Never	2	2.0
	Rarely	6	6.1
	Sometimes	15	15.3
	Often	41	41.8
	Always	34	34.7
Method use to evaluate investment projects:	Payback period	91	92.9
	No answer	7	7.1

From Table 4.9, fifty-four percent of the respondents within the sample often or always evaluate projects before taking decisions on the investment projects but thirteen percent responded that they rarely or never evaluate projects before taking decisions. The concern of these enterprises is not on the evaluation of project but as the need arises, they purchase fixed assets. On the efficiency level of fixed asset utilization, seventy-six percent of the responding enterprises often or always review the efficiency of using fixed asset for the investment.

On the kind of methods that enterprises use to evaluate projects, almost ninety-three percent of the respondents indicated the use of payback period as the main method used for evaluating projects. Seven percent of the responding enterprises did not give an answer to the question. The information on the capital budgeting management gives a confirmation to the research conducted by Peel & Wilson (1996) and Luoma (1967). Their research did indicate that, the most popular method used by enterprises to evaluate investment project is payback period and the results from this study on capital budgeting management confirms that. This means that other methods of evaluating investment projects such as internal rate of return, modified internal rate of return, net present value and discounted payback period are not frequently used.

In summary, almost fifty-four percent of the enterprises often or always evaluate investment projects before taking decision on investment and a high percentage of the responding enterprises review the efficiency level of the utilization of the fixed asset after investing (76%). Ninety-three percent of the respondents use payback period as the main method for evaluating investment projects. The findings show that business enterprises do not have strong regard for capital budgeting management.

4.3 The Overview of Profitability of Business Enterprises.

This study investigates whether business enterprises make profit or not and whether financial management practices impinge business enterprise profitability.

An enterprise is said to be profitable if and only if the annual average profit exceeds the risk-free rate of interest. In other words, if the risk-free rate is above the annual average profit, then the business enterprise is said to be not profitable. Also from the profitability ratios; return on asset and profit margin, the average of these two ratios constitutes the annual average profits.

Table 4.10: Overview of business enterprise profitability

		No. of enterprises	Percentage
Profitability:	Profitable	73	74.5
	Not profitable	25	25.5
Annual profits :	Less than GH₵50,000	75	76.5
	GH₵50,000 - GH₵100,000	20	20.4
	More than GH₵100,000	3	3.1

From these two definitions of profitability, Table 4.10 shows that seventy-five percent of the respondents indicated that their business is profitable. This means that seventy-three of the ninety-eight business enterprises are profitable. The rest of the enterprises are not profitable meaning their annual profits do not exceed the risk-free rate of 24.6%. Out of the profitable enterprises, sixty percent are trading enterprises and forty percent are manufacturing enterprises. On the other hand, sixty-eight percent of the enterprises that were not profitable are trading enterprises while thirty-two percent are the manufacturing enterprises.

Also Table 4.10 reveals that seventy-seven percent of the respondents record less than GH₵50,000.00 as annual profit, twenty percent have between GH₵50,000 .00 and GH₵100,000.00 as annual profits and only three percent record more than GH₵100,000.00 as their annual profits.

4.4 Findings and Bivariate Analysis

To do analysis using multiple regressions, there is the need to conduct a test of association to find out whether there exists a relationship among the variables under consideration. The results of this test are then reported on a correlation matrix. This was used by Litz & Stewart (2000) and Kieu (2004).

The independent variables used for this research were working capital management and capital budgeting management. The dependent variables also included profit margin, return on asset, and profitability. The main purpose of using correlation matrix was to find out if there was existence of correlation and multicollinearity among the variables.

4.4.1 Connection between Profitability, Return on Assets and Return on Sales.

Table 4.11 Correlation matrix of PRO, ROA and ROS

	Profitability	**Return on assets**	**Return on sales**

Profitability (PRO)	1.00	.883**	.395**
Return on assets (ROA)	.883**	1.00	.382**
Return on sales (ROS)	.395**	.382**	1.00
** Correlation is significant at the 0.01 level (2-tailed)			

Table 4.11 presents the results of the correlation matrix of profitability, return on assets and return on sales. From the table, there is a positive correlation between profitability, asset returns and return on sales with the coefficient of correlation r = 0.883 and 0.395 respectively at 0.01 significant level. Because profitability has a high correlation with return on assets, it was dropped from the analysis. In this case the dependent variables will include profitability and return on sales and these two variables will be used to measure business enterprises' profitability.

4.4.2 Connection between Financial Management and Profitability

Table 4.12: Correlation matrix of PRO and independent variables

	Profitability	**WCM**	**CBM**

Profitability (PRO) 1.00	.853**	.703**	
Working capital management (WCM)	.853**	1.00	.544**
Capital budgeting management (CBM)	.703**	.544**	1.00
** Correlation is significant at the 0.01 level (2-tailed)			

From Table 4.12, there is a positive correlation between the dependent variable and the independent variables. Profitability has a significant positive correlation with working capital management and capital budgeting management with correlation coefficient r = 0.85 and 0.703 respectively. The significant level is very high.

The inter-correlation coefficient of the variables is not strong to bring about multicollinearity among the variables. Murphy III (1989) revealed from his research that multicollinearity only exist if the correlation coefficient is equal to or greater than 0.7 but from the correlation matrix of the independent variables from the table, all the correlation coefficients are less than 0.7 (r = 0.54)

Table 4.13: Correlation matrix of ROS and independent variables

	Return on sales	**WCM**	**CBM**

Return on sales (ROS)	1.00	.469**	.516**
Working capital management (WCM)	.469**	1.00	.544**
Capital budgeting management (CBM)	.516**	.544**	1.00
** Correlation is significant at the 0.01 level (2-tailed)			

Table 4.13 gives an indication that return on sales has a significant positive relationship with the independent variables (working capital management and capital budgeting management) with correlation coefficients, r = 0.47 and 0.52.

4.5 Multiple Regression Analysis

Here only profitability is used as the dependent variable with working capital management and capital budgeting management as the independent variables.

From Table 4.14, there is a significant correlation between profitability and financial management practices with coefficient of correlation R =0.85 and at the same time with the coefficient of determination R^2 = 0.73 at a significant level of P= 0.0001. This means that variations in the dependent variable which is profitability are explained by changes in the independent variables (working capital management and capital budgeting management) by seventy-three percent. Only twenty-seven percent of the variations in profitability are not explained by the independent variables. The analysis of variance reveals that the value of F (127.458) is significant at the level of 0.0001. Since the F value is large, the independent variables contribute to the variance in the business enterprises profitability and this point out the actual performance of business enterprises (Davis, 1996; Keller, Warrack & Bartel 1994). The table also shows how each of the independent variables contributes to the study. The independent variables with the exception of capital budgeting management contributed significantly in terms of the variance of business enterprises' profitability at a significant level of 0.0001. Capital budgeting management has a negative relationship with profitability with beta, β = -0.059 at a significant level of 0.556. This does not support the hypothesis which states that capital budgeting positively relates to profitability.

Table 4.14: Enterprises regression model with profitability as independent variable

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		

1 (Constant)	-8.224	1.045		-7.870	.000
Working capital management	.644	.071	.903	9.062	.000
Capital budgeting management	-.034	.058	-.059	-.590	.556

Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.854	.729	.723	.27914

Anova

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	19.863	2	9.931	127.458	0.000
	Residual	7.402	95	0.78		
	Total	27.265	97			

a. Dependent Variable: PRO

b. Predictors: (Constant), Capital Budgeting Management, Working Capital Management

Table 4.15: Enterprises regression model with return on sales as independent variable

Model	**Unstandardized Coefficients**	**Standardized Coefficients**	**t**	**Sig.**

		B	Std. Error	Beta		
2	(Constant)	.768	.733		1.048	.000
	Working capital management	.036	.050	.911	.729	.000
	Capital budgeting management	.103	.040	.415	2.542	.000

Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
2	.520	.270	.255	.19581

Anova

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
2	Regression	1.347	2	.674	17.570	.000
	Residual	3.642	95	0.38		
	Total	4.990	97			

a. Dependent Variable: ROS

b. Predictors: (Constant), Capital Budgeting Management, Working Capital Management

Table 4.15 shows a significant correlation between return on sales and financial management practices with coefficient of correlation R =0.520 and at the same time with the coefficient of determination R^2 = 0.270 at a significant level of P= 0.0001. This means that variations in the dependent variable are explained by changes in the independent variables (working capital management and capital budgeting management) by twenty-seven percent. Seventy-three percent of the variations in the dependent variable are not explained by the independent variables. From the same table, the analysis of variance reveals that the value of F (17.570) is significant at the level of 0.0001. Since the F value is large though smaller as compared to the first F value, the independent variables contribute to the variations in the business enterprises sales returns. The table also shows how each of the independent variables contributes to the study. All the independent variables contributed significantly in terms of the variance of business enterprises' return on sales at a significant level of 0.0001.

The results of this study confirms the research conducted by Block (1997) and Grablowsky (1978) and Grablowsky and Rowell (1980) that business enterprises pay much attention to cash management, accounts receivables, inventory management and capital budgeting management.

Besides this study found out that working capital management has a positive relationship with profitability but capital budgeting management has a negative relationship with business enterprise profitability. These findings are also in consonance with the research conducted by Asuquo, Effiong, Tapang & Tiesieh (2012) on the effect of financial management practices on the profitability of small and medium enterprises in Nigeria.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

5.1.1 Working Capital Management

The study revealed that, eighty-nine percent of the enterprises responded that they sometimes, often or always prepare cash budgets and review cash budget on a monthly basis. Five percent of the respondents often or always record shortages of cash whereas seventy-eight percent have cash shortages. On cash surpluses, thirty-two percent of the respondents sometimes have cash surplus but sixty-one percent of the responding enterprises never or rarely record cash surplus. From the findings it is clear that cash surpluses are the major problem of the enterprises rather than cash shortages. It is rather unfortunate that enterprises that record cash surplus do not invest it for profit. Cash surpluses can be invested in the money market for profit because enterprises have little knowledge on investing in the money market. Sixty-six percent of the enterprises do not invest their cash surplus in the money market.

Twenty-one percent of the enterprises often or always sell their products on credit but only sixty-percent have a credit policy for their customers whereas sixty-four percent of the responding enterprises sometimes sell their product on credit. This shows that selling product on credit is a common practice among the enterprises. Most of the enterprises review the level of the receivables and bad debts on a monthly basis. Enterprises have managed and controlled their bad debts at an appreciable level.

On the issue of inventory management practices, although business enterprises prepare inventory budgets and review inventory levels, enterprises do not use any inventory theory in inventory management. Ninety-eight percent of the responding enterprises review inventory level on the basis of the owners' experience.

5.1.2 Capital Budgeting Manage

From the analysis, sixty-one percent of the respondents evaluate projects before making investment decisions as well as reviewing the efficiency of using fixed assets. Ninetythree percent of the enterprises use payback period as the main method of evaluating investments before taking decisions. Payback period for evaluating investment projects is very simple to use and this accounts for why majority of the enterprises revealed their preference for its use. Block (1997) indicated in his research that payback period is more important than profit returns.

5.1.3 Profitability of Business Enterprises

From the analysis presented in chapter four, seventy-five percent of the responding enterprises were profitable and the rest of the enterprises constituting twenty-five percent were not profitable. This means that these enterprises could not earn profit that is above the risk-free rate of return.

The analysis also revealed that there is a significant relationship between financial management practices and the profitability of business enterprises. This is seen from the correlation coefficient of 0.85 and 0.70 respectively at a significant level of 0.0001.

From the regression results, there is a significant relationship between financial management practices and business enterprise's profitability with a correlation coefficient of R = 0.85 at 0.0001 significance level. This shows that financial management practices have impact on the profitability of business enterprises. The analysis also revealed that the individual independent variables also impact profitability of business enterprises. Capital budgeting has a negative effect on business enterprise's profitability whilst working capital management has positive effect on the profitability of business enterprises.

5.2 Recommendations

It is recommended that further research should be conducted to look into all the financial management practices (Capital structure management, Accounting information system, Financial reporting and analysis, working capital management and capital budgeting management) and their impact on profitability of business enterprises.

Also since financial management practices have effect on business enterprises profitability, financial managers or owner managers should pay much attention to these practices.

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APPENDIX: SURVEY INSTRUMENT

SURVEY OF FINANCIAL MANAGEMENT PRACTICES OF BUSINESS ENTERPRISES IN OBUASI

The aim of this study is to obtain information on financial management practices of business enterprises in Obuasi.

A. Business Profile

(Tick the appropriate number that best answers to each question)

1. Owner/manager details

1.1 What is your position in the business?

Owner...1

Manager...2

Other, please specify 3

2. Business details

2.1 What best describes the type of industry of your business (Please circles one that applies)?

Manufacturing 1

Trading 2

Others 3

2.2 How long has your business been established (Please circle one that applies)?

Less than 6 years 1

More than 6 years...2

2.3 How many employees does your business currently have (Please fill the number that applies)?

Less than 15 years 1

More than 15 years...2

2.4 Which of the following ranges is the best indication of your business total assets (Please circle one that applies)?

Less than 1 million Ghana cedis 1

1-5 million Ghana cedis 2

More than 5 million Ghana cedis 3

2.5 Which of the following ranges is the best indication of your business annual sales (Please circle one that applies)?

Less than 1 million Ghana cedis 1

1-5 million Ghana cedis …...2

More than 5 million Ghana cedis 3

2.6 What best describes your businesses profitability (Please circles one that applies)?

Profitable 1

Not profitable 2

2.7 Which of the following ranges is the best indication of your business annual net profits?

Less than 50,000 Ghana cedis... 1

50,000-100,000 Ghana cedis 2

More than 100,000 Ghana cedis.....................................3

B: FINANCIAL MANAGEMENT PRACTICES

1. Cash Management Practices

1.1 Does your business ever conduct the following ones (Tick one number that applies for each described below)?

	Never	Rarely	Sometimes	Often	Always
Preparing cash budget	1	2	3	4	5
Determining the target cash balance	1	2	3	4	5
Occurring cash shortage	1	2	3	4	5
Occurring cash surplus	1	2	3	4	5

1.2 How often is the cash budget prepared and reviewed in your business (Tick one that applies for each)?

	Never	Weekly	Monthly	Quarterly	Semiannually	Annually
Preparing cash budget	0	1	2	3	4	5
Reviewing cash budget	0	1	2	3	4	5

1.3 On what basis does your business determine target cash balances (Circle one that applies)?

Based on theories of cash management 1

Based on historical data 2

Based on owner/manager's experience 3

Other 4

1.4 Where does your business often invest the temporary cash surplus (Circle one that applies)?

Bank deposit 1

Treasury bills 2

Other 3

No where 4

2. Receivable Management Practices

2.1 Does your business ever carry out the things listed below (Circle one that applies for each)?

	Never	Rarely	Sometimes	Often	Always
Sell products or services in credit	1	2	3	4	5
Set up its credit policy to the customers	1	2	3	4	5

2.2 How often does your business review its levels of receivables and bad debts (Circle one that applies for each row)?

	Never	Weekly	Monthly	Quarterly	Semiannually	Annually
Review its levels of receivables	0	1	2	3	4	5
Review its bad debts	0	1	2	3	4	5

2.3 Which of the following ranges is the best indication your business's percentage of bad debts (Circle one that applies)?

Less than 5% of sales 1

5 – 10% of sales 2

10 –20 % of sales 3

More than 20% 4

Don't know 5

3. Inventory Management Practices

3.1 Does your business ever do the following ones (Tick one that applies for each row)?

	Never	Rarely	Sometimes	Often	Always
Review its inventory levels	1	2	3	4	5
Prepare inventory budget	1	2	3	4	5

3.2 On what basis is the inventory level determined (Circle one that applies)?

Based on theories of inventory management 1

Based on historical data.......................................2

Based on owner/manager's experience 3

Other 4

4. Capital Budgeting Management Practices

4.1 Related to capital budgeting management, does your business do the following ones (Tick one that applies for each row)?

	Never	Rarely	Sometimes	Often	Always
Evaluate its projects before making capital investment decisions	1	2	3	4	5
Review efficiency of using fixed assets after investing	1	2	3	4	5
Use computer in managing fixed assets	1	2	3	4	5

4.2 Which methods does your business use for assessing projects (May circle more than one number)?

Payback period 1

Discounted payback period 2

Net present value 3

Internal rate of return 4

Modified internal rate of return 5

Others 6