Working Capital Management Practices of Small and Medium Enterprises in the Western Region. A Survey of Selected Smes in the Sekondi- Takoradi Metropolis

By

Anita Pieterson B(Ed) Social Science (Hons.)

(PG4139110)

A thesis submitted to the Institute of Distance Learning, Kwame Nkrumah University of Science and Technology in partial fulfilment of the requirements for the degree of

COMMONWEALTH EXCUTIVE MASTERS OF BUSINESS ADMINISTRATION

JULY 2012

DECLARATION

I hereby declare that this submission is my own work and that to the best of my knowledge, it contains no materials previously published by another person or 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.

....	....	....
Students Name & ID	Signature	Date

Certified by:

....	....	....
Supervisor's Name	Signature	Date

Certified by:

....	....	....
Head of Dept, Name	Signature	Date

DEDICATION

This work is dedicated with all my love to my husband Mr John Gorkeh-Miah and my children Phylis Gorkeh- Miah, Anabel Gorkeh-Miah and John Gorkeh-Miah Jnr.

ACKNOWLEDGEMENTS

It gives me an immense pleasure to present a dissertation on working capital management practices carried on SME's at the Sekondi- Takoradi Metropolis. Writing on this dissertation required co-operation and assistance of many people.

I am happy to take this opportunity to express my gratitude to those who have been helpful to me in completing this project. My deepest appreciation goes to the Almighty God and then to my supervisor Mr Godfred Gyau Ntow of Kwame Nkrumah University of Science and Technology, institute of distance learning, Takoradi centre, for his tremendous support towards the completion of this thesis.

I also thank the National Board for Small Scale Industries (NBSSI at Takoradi) for giving the necessary information that I needed.

My appreciation goes to Madam Stella Ntoko a lecturer at the University of Cape Coast and Justice Mensah for helping me with my data entry and proof reading of the thesis. I am equally grateful to Miss Irene Arhur , Ernest Appah, Kevin Essel Armah, Stella Asamani, Simon Marley, Aba Eyiah, Mrs. Vivan Monney, Madam Efuah Nkrumah, Patience Atimbisa, Nanabanyin Pieterson and Ekow Pieterson for their immense support towards the successful completion of this thesis.

I am equally grateful to my co-workers at the Ahanta West District Education Office for their tremendous support, towards the completion of this thesis.

To all my friends whose encouragement motivated me to make the thesis presentable and computable, I say thank you.

ABSTRACT

The main thrust of this study is to unveil the working capital management practices of small and medium scale enterprises in the Western Region of Ghana. A well designed and implemented working capital management is expected to contributes positively to the creation of a firms values.

The study used descriptive and analytical sample survey for the representation and the analysis of the findings. The result shows that 87.4% of the entrepreneurs functioned as sole proprietors, whiles 14.1% as partnership and the remaining 1.5% as cooperative societies.

The results again shows that 46.1% received credit from suppliers and the average credit period given by SMEs to their credit customers ranged between seven to sixty days(7-60days).From the study , two main problems faced by SMEs in dealing with credit customers are late payment and bad debts.

The results shows that 52.8% of the respondents use note books to represents cash books whiles non(0%) of the respondents use computer inventory control. 65.3% of the respondents have bank accounts for their businesses. Personal savings accounted for about 35.7% of the start up capital and SMEs consider inflation /price increases to be more problematic than even high debtors turnover period and low stock turnover.

Consequently ,it is recommended that there should be greater collaboration between the Business Advisory Centres(BACs) and the various associations of SMEs for the financial training of the entrepreneurs.

The SMEs should establish organizations and groups like civil society organizations, regional, district ,community and interest groups to jointly organise and sponsor training programmes for their accounting personnel. There is also the need for SMEs to identify their investment priorities particularly those that are crucial in sustaining their businesses in the long run. They should sacrifice a chunk of their funds to finance and achieve these priorities that will enable them to generate extra cash or profits to plough back into other sectors of their industries.

It is also recommended that SMEs should prepare budget at each time they intend to embark on major expenses. This will forestall unnecessary, unwanted, overestimated and underestimated expense. There is also the need for SMEs to formulate credit policy for their enterprise and to create a re-order level policy for their institution that will create an enabling environment for them to request for their supply of moderate and high quality stocks.

TABLE OF CONTENT

LIST OF FIGURES

LIST OF TABLES

CHAPTER ONE
GENERAL INTRODUCTION

1.0 BACKGROUND OF THE STUDY

There exist lots and lots of business ventures that are run by individuals, group of people or association, firms, industries and government with the aim of maximizing profits. They range from small scale to medium and large firms. In the Ghanaian economy the small scale enterprises are the most common form of business. The aim of any economy (either industrialized or non industrialized) depends largely on how well organised the small and medium scale enterprises are (for instance if we look at the standard of practices of small-scale industries in the economically developed Countries). The small enterprises in Ghana seem too stagnant, less adventurous than developed countries because the successive governments have not appreciated their significance to the national economy.

Firstly, most of the small businesses are essentially one person's operation which makes such companies sole proprietorship business venture.

Small firms play critical roles in providing job opportunities, nurturing a culture of entrepreneurship and opening up new business opportunities. They are recognised and acknowledged worldwide as vital and significant contributors to the economic development, introduction and diffusion of new technology, ability in generating potential entrepreneurs and skilled workers for the industrialization process both nationally and internationally (Ch'ng Hak kee & Chang Zeph -Yun 1986:25).

Small and Medium-Scale enterprises development can encourage the process of both inter- and intra- regional decentralization; and they may well countervail economic power of larger enterprises.

More generally, the development of SME's is seen as accelerating the achievement of wider economic objectives, including poverty alleviation (cook & Nixson, 2000).

Small and Medium enterprises are new and growing business which (for any number of reasons) do not grow beyond a certain size (Thomson & Martin 2005). The Ghana Statistical Services (GSS) consider firms with fewer than ten employees as small -scale enterprises and their counterparts with more than ten employees as medium and large sized enterprises. The GSS in its national accounts considered companies with up to 9 employees as SMEs. (kayanula & Quartey 2000).
According to the National Board for small- scale industries which was established in 1985 (ACT434 0f 1981), SME's contributes substantially to reducing the high unemployment rate and to the growth of the economy of Ghana.

SME's account for a significant share of the economic activity in Ghana and can play an important role in achieving the Millennium Development Goals (MDGs). The long term goals is for SME's to maximize their contribution to the Country's economic and social development with respect to production, income distribution and employment and the closer integration of women and people in rural areas within the national economy (NBSS, 1981).

One of the significant characteristics of flourishing and growing economy is booming small and medium enterprises (SMEs).
Small and Medium enterprises play an important role in the development of Ghana in various ways by creating employment for rural and urban growing labour force, providing desirable sustainability and innovation in the economy as a whole.

The small and medium scale enterprises have obvious advantage for a developing country like Ghana (Sekondi-Takoradi) because it provides the means of entry for new entrepreneurial talent.
Small and medium scale business sector serve as a seed bed from which new large companies will grow but lack of managerial know-how places significant constrains on SMEs development. Even though SMEs tend to attract motivated managers, they can hardly compete with large firms.

The scarcity of management talent, prevalent in most countries in the region, has significant impact on SME's (Parker et al, 1995). The lack of support services or their relatively higher unit cost can hamper SME's effort to improve their management of working capital (ibid). In view of their sizes and complexities of their operations, most small and medium scale enterprises fail to keep proper records of financial activities which affect their working capital. This has taxation, credit management and security implication. The lack of proper business records makes most small and medium scale businesses become practically constrained in managing their working capital very well.

1.1 STATEMENT OF THE PROBLEM

Working capital management is poorly understood by most small and medium scale enterprises in many parts of the developing world of which Ghana is one.

The dynamic role of small and medium scale enterprise (SME'S) in developing countries have been identified as the means through which rapid industrialization and other development goals of these countries can be realized.

Many small and medium scale enterprises which are profitable are forced to cease their operations due to the inability to meet their short term debts obligations. Not that they do not have funds to operate, but the problem is how they manage their working capital. Blunt and vague ideas about phenomenon will be misnomer.

To gain empirical insight into this state of affairs, there is a need to conduct an investigation into the management practices of small and medium scale enterprises insofar as their working capital is concerned and why small and medium scale enterprises which are profitable collapse.

1.2 OBJECTIVES OF THE STUDY

General Objectives:

Holistically, the study examined the working capital management practices of small and medium scale enterprises in the Sekondi-Takoradi Metropolis.

Specifically, the study sought to:

1. ascertain methods that were used / book keeping practices of SMEs
2. examine strategies SMEs used in the administration of accounts receivables.
3. determine the inventory management system of SMEs with respect to working capital management
4. explore the credit management mechanisms that are being used by SMEs
5. examine the impediments obstructing the appropriate management of working capital by SMS investors

1.3 RESEARCH QUESTIONS

The following research questions guided the study: These include;

1. What are the attitudes of management towards working capital management practices in the small and medium scale enterprises in Ghana?
2. What techniques do SMEs in Ghana use in managing their accounts receivables and accounts payables?
3. How are matters on inventory management approached with respect to Working Capital Management?
4 How do SMEs in Ghana mange their cash flows?
5 What are the flaws witnessed by SMS investors in managing their working capital?

1.4 THE SCOPE OF THE STUDY

It is worth mentioning that, the study was limited to Sekondi-Takoradi Metropolis because of proximity and cost saving. Selection was also based on the fact that it has a number of industrial units in the Western Region.

The small-scale enterprise in the metropolis operates under either physical structures or non permanent physical structures. The non permanent physical structures include kiosk, container and garage. The permanent physical structures are part of own related premises.

The study design adopted was descriptive survey, it was chosen in view of the fact that this small scale study of relatively short duration and its involves a systematic collection and clear picture of a particular situation.

It was aimed at getting relevant information related to working capital management practices of small scale enterprises in the Sekondi-Takoradi Metropolis.

1.5 SIGNIFICANCE OF THE STUDY

It is hoped that the result of this study concerning working capital management in the Sekondi -Takoradi Metropolis would contribute to current knowledge on growth of small scale enterprises at the National Board for small scale industries(NBSSI), the Business Advisory Centre (BAC) and other promotion agencies.

Secondly, the finding unearthed will be useful not only to small scale business in the Sekondi- Takoradi metropolis but also to all small- scale business throughout the country. This would also help stakeholders in business to formulate and implement policies that will help them to effectively manage working capital. Determining ways management can effectively improve their working capital management.

To improve the book keeping and accounting practices in SME's to facilitate growth. To help the SMEs gain access to finance and improve their financial management skills. Help SMEs to adopt prudent managerial policies as well as professional expertise for efficient managerial works.

Finally, this study would provide useful information for designing strategies to influence the growth of small-scale enterprise. The information would also assist officials of the Ministry of Trade and Industries in formulating small-scale industries growth policies and programmes which are responsive to entrepreneur's local needs. Such information may be useful to non-governmental organizations playing vital roles in small-scale entrepreneurial skills and development in Ghana and the Sekondi- Takoradi Metropolis.

1.6 LIMITATIONS OF THE STUDY

It is worth mentioning that the study covers a small portion of the small scale enterprises in the Sekondi-Takoradi Metropolis due to time and financial constraints. The problem is compounded when dealing with small scale enterprises. These firms do not keep records and one would have to constantly deal with estimates and guesses to arrive at a conclusion as regard purchases, sales, services and borrowing.

1.7 ORGANISATION OF THE STUDY

The thesis was organised in five chapters;

Chapter one provides an introductory overview of the full study comprising the statement of the problem, objectives of the study, research questions, and relevance of the study. Delimitation of the study, operational definition of terms and how the thesis was organised are also captured in this chapter.

Chapter two follows with a review of relevant literature on working capital management practices of small and medium scale enterprises.

Chapter three presents the methodology used for the study and gives a detailed overview of the population sampling technique, the research design, research instrument, the data collection procedures and data analysis procedures. It also provided analytical framework and the relevant variables that were included in the model to be used in the study.

Chapter four focuses on the characteristics of the respondents and the analysis of the data.

Chapter five summarises, concludes and offer recommendations for the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter reviews some of the related literature on working capital management among SME's.

2.1 BRIEF HISTORY OF SEKONDI TAKORADI

Sekondi-Takoradi is the third largest city in Ghana and is also an educational centre with a lot of technical colleges and secondary schools. It is also the capital city of the Western Region of Ghana. It is the prime destination for industry and commerce. The main industries that flourish here are plywood, ship building, timber, and railroad repair. Sekondi Takoradi remains one of the most sought- after Tourist destinations in Ghana because it has a lot of beautiful beaches which also attract tourists throughout the world. Sekondi-Takoradi is located on the main railway line that runs from Accra to Kumasi. Sekondi-Takoradi is currently named (although not efficiently) the oil city of Ghana due to the discovery of oil in commercial quantity in the Region and has attracted unprecedented migration of people all over the world. Sekondi-Takoradi is home to Takoradi Polytechnic, Nurses and Midwifery Training College, Holy Child Training. The Metropolis has several Senior High Schools and Special Schools. The Metropolis is bustling because of the Takoradi Harbour which serves as a major export centre for Ghana after the Tema Harbour. Because of high export activities, many people migrate to the metropolis for equipment and this increase warranted the setting up of many Small and Medium Scale enterprises in the metropolis.

2.2 THEORETICAL FRAMEWORK

The significance of efficient working capital management (WCM) cannot be disputed in corporate viability, performance, sustainability and competitive entrepreneurship. Business viability relies to a greater extent, on its ability to effectively manage receivables, inventory and payables .Thus much managerial effort is spent on bringing non-optical level of current assets and liability back to their optimal levels.

Many authors, industry management, scientists, economists and practicing business executives have approached the topic in diverse ways.

Park and Gladson (1963) approach the subject on accounting orientation emphasizing the flow of funds.

Hunt et al,(1980) in addressing the need for funds and management of assets viewed working capital management as involving decision on how large commitment of funds should be in the various assets categories.

However, Horne (2000) notes as unfortunate the split between current assets (short-term financing) and fixed assets (long-term financing) since this tends to cloud the overall valuation of the firm.

He states that though conceptually, it does not make sense to diverse the various component of working capital management from fundamental investment and financing decisions, in practices it becomes necessary for firm's to separate the two. Because working capital management is an integral part of a firm's overall financial management.

Implicit in the references cited above is the need for a wider view of working capital management. In support of this, Archer and Ambrosio (1976) emphasize that the central question of working capital management is what type and how much of each of the current assets are ideal in order to maximize the returns to the owners of the organisation. They therefore identified the task of the financial manager as trying to determine an optimum mix and quantity of current assets so that there is neither too little nor too much working capital.

Anderson (1982) also states, that cross-sectional and time series data suggested that the industrialization process normally begins with rapid growth of small-scale industries, some of which grow to become medium and eventually large-scale firms while the rest survive the market niche where they can remain competitive with large-scale enterprises.

Other authors including Ancher and Sibel (1987) also argue that SMEs have advantages over their large-scale competitors because they are able to adapt more easily to market conditions given their skilled technologies. They explain that due to their flexible nature, SMEs are able to withstand adverse economic conditions. They are more labour- intensive than larger firms and therefore, have relatively low cost of capital associated with job creation.

A study by Steel and Webster (1991) and Aryeetey (2001) also indicate that small enterprises in Ghana are said to be a characteristic feature of production landscape and have been noted to provide 85% of manufacturing employment in Ghana. In the same vein, Thomi and Yankson (1985) find that most SMEs in Ghana do not offer much for substantial permanent wage employment but play a crucial role in training future entrepreneurs as well as providing opportunities for self- employment.

The concerns of corporate bodies or SMEs are optimization of sales and profit with the issue of working capital subordinated. The primary aim of working capital management is to minimize the cash conversion cycle and thus the amount of cash tied up in net current assets. Working capital management should therefore be seen as an integral part of the firm's overall financial management.

2.3 DEFINITION OF SMEs

Searching for a definition of SMEs can be frustrating as there are as many definitions as there are authors on the subject. Over the years there have been many attempts at defining what constitute small and medium scale enterprises. Researchers and policy makers have used a variety of criteria including; total worth, relative size within industry, number of employee, value of products, annual sales or receipts, and net worth. (Cochran 1981). However, the benchmarks vary considerably.

The definition of small and medium enterprises therefore varies from country to country. The classification can be based on firm's assets, number of employees, or annual sales.
In Ghana, the National Board for Small Scale Industries (NBSSI), defines SMEs as an enterprise which employs not more than 29 workers with an investment (excluding land , building and vehicles) not exceeding 10million Ghana cedis.

However, Osei et al (1993) use an employment cut-off point to categorize SMEs. They classify small-scale enterprise into three categories which includes: micro-employing less than 6 people, very small- employing 6-9 people and small-between 10and 29employees.
For the sake of emphasis, the Ghana Statistical Service (GSS) considers firms with fewer than 10 employees as small-scale enterprises. Ironically, the GSS in its national accounts considered companies with up to 9employees as SMEs. (Kayanuala & Quartey 2000).

The United Nations Industrial Developmental Organisation (UNIDO) also use number of employees to define SMEs by giving different classifications for industrialized and developing countries (Elaian 1996). The definitions for industrialized countries are given as follows: Large – firms with 500 or more workers ; Medium- firms with 100-499 workers and small firms with 99 or less workers;.

The classifications given for developing countries are as follows: Large firms with 100 or more workers; medium- firms with 20-99 workers; Small- firms with 5-19 workers and micro firms with less than 5 workers.

Pobosky (1992) also observe that numerous varieties of criteria can be applied in defining SMEs which include the size of the work force (employees) or capital, forms of management or ownership, production techniques, volume of sales, number of clients, level of energy consumption and others . An alternative criteria used in defining SME's is the value of fixed assets in the organisation. However the National Board for Small Scale Industries (NBSSI 1985) in Ghana applies the fixed assets and number of employee's criteria in defining SMEs.

It defines small and medium scale as one with not more than 9 workers and has plant and machinery (excluding land, building and vehicles) not exceeding 10 million Ghana cedis.

Research ICT Africa (RIA) in a survey published in May 2007, defines small and medium enterprises (SMEs) as an enterprise having less than 50 employees as recommended by the African Development Bank.

In Australia, the Wiltshire Committee (1971) defines SMEs as a business in which one or two persons are required to make all the critical management decisions: finance, accounting, personnel, purchasing, processing or service, marketing , selling , without the aid of internal specialist and with specific knowledge in only one or two functional areas''.

The 1985 UK Companies Act defines small company in respect of financial disclosure as companies employing 50 or less employees.

Whatever the definition and regardless of the size of the economy, the growth of the SMEs throughout the country is crucial to its economic growth.

From the various definition above it can be said that there is no unique definition for small and medium –scale enterprises.

2.4 IMPORTANCE OF SMEs IN DEVELOPING COUNTRIES

In the world today, Nwosu, 1981, stresses that there is widespread acceptance that the ability of any national economy to adapt to change and to continue economic progress is greatly enhanced if there is a continuing growth of new products and new job creation by small-scale enterprises. Owners of small- scale have been in existence all over the world, ever since trade by barter began. They have been accommodating themselves to their circumstances and opportunities of their times and places, carrying over the broad thread of their business affairs from century to century. In the advanced countries it was essentially the craftsman who gave pedigree to today's manufacturer.

Allal and Chuta (1982) stress that given the large number of small- scale enterprises in both the rural and urban areas, it is clear that the small- scale industrial sector provides substantial employment opportunities for the benefit of the rural and urban area.
There is clear and undisputed evidence that a strong and broadly based small industrial sector is an essential ingredient for the economic prosperity, resilience and innovative growth (McCarthy, 1989:24). Small- Scale enterprises are a good source of private employment and even for some public employees as they provide useful income supplement as a second job (Sowa et al .1992). The small –scale enterprise provide the large scale sector with goods and services at very low prices, which makes it possible for large scale sectors to make high profits.

Various writers are of the view that mall- scale enterprises play an important role in the economies of developing countries. The history of Ghana completely confirms that the small-scale enterprise sector has helped in the country's industrialization process.

Kellick (1978) states that attempts by Ghana to achieve full employment through the public investment in large –scale industries could not achieve the desired results.
Evidence has shown that small and medium enterprises (SMEs) in Ghana over the years have contributed greatly to the overall employment and production of goods and services.

According to Abor and Quartey (2010), small and medium enterprises provides 85 percent of manufacturing employment, contributes about 70 percents to Ghana's Gross Domestic Product and accounts for about 92 percent of businesses in Ghana. The importance of finance in promoting the growth of small business has been acknowledged in prior studies on small business growth and development (Abor & Biekpe 2006, Kasakende, 2001). Other studies have identified finance as the most important constraint to the growth in the small business sector (Aryeetey et al, 1994, Steel and Webster 1992, and Sowa et al ,1992).

Mead and Liedholm (1998) in their study of the problems of small –scale business in Africa identified lack of demand and shortage of working capital as the main reasons for small businesses closure in Africa.

This study defines SMEs as firms employing less than 20 employees.

2.5 THE CONCEPT AND DEFINITION OF WORKING CAPITAL

The importance of efficient working capital management is not new to the finance literature. The efficient management of working capital is more vital in small and medium enterprises than it is for large organizations particularly as they are not likely to have access to financial expertise like the large enterprises (Peel and Wilson 1994).

Different people use the term ‘ working capital ` differently, Khan, Jain (2007) argue that there are two concepts of working capital; gross and net . The term gross capital also referred to as working capital means the total current assets of a business. The term net working capital can be defined in two ways (1) net working capital (NWC) is the difference between current assets and current liabilities; (ii) that portion of current assets which is financed with long- term funds.

Working capital is usually defined as the current assets less current liabilities. The major elements of current assets are inventories, accounts receivables and cash (in hand and at bank) while that of current liabilities are accounts payable and bank overdrafts.

According to Atrill (2006) working capital represents a net investment in short term assets. These assets which are continually flowing (circulating) into and out of the business are essential for day-to day operations.

Kirkman (1997) argues that in recent years there have been many arguments about the precise definition of working capital although in balance sheet terms it has generally been considered to be made up of the difference between current assets and current liabilities. The difference between current assets and current liabilities is termed net working capital which indicates the liquidity of the firms and the extent to which working needs may be financed by permanent sources of funds.

Srinivas (1999) also defines ‘’ Working capital’’ as the capital invested in different items of current assets needed for the business, that is, inventory, debtors, cash and other current assets such as loans and advances to third parties. These current assets are essential for smooth business operations and proper utilization of fixed assets. Net working capital (NWC) technically, is the difference between current assets and current liabilities, whiles Gross Working Capital (GWC) refers to the sum of all current assets. NWC concepts is qualitative in nature the former is primarily quantitative.

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

A company must be able to generate sufficient cash to be able to meet its immediate obligations and therefore continue trading. Inadequate working capital decisions and accounting information have been referenced consistently as causes of small and medium enterprises failure. According to Barrow (2001: p56), there is enough evidence which point to small and medium enterprises being inefficient users of working capital.
As he puts it, ‘’ the smaller they are, the less efficient they tend to be’’.

Writing on working capital management Peel and Wilson (1994) state that very little research has been done on the SMEs sector, but it is likely that the following differences in working capital management practices will exist;

- Greater reliance on trade credit and bank overdrafts for short- term financing.
- A willingness to grant over-generous credit terms to obtain business, particularly from large companies.
- Relatively weak control procedures and lack of a clear policy on working capital management.

Writing on the importance of working capital, Baker (1991) argues that working capital constitutes a large portion of firm’s total assets. Although the level of working capital varies widely among different industries, firms in manufacturing and retailing often keep more than half of their total assets as current assets.

In the case of SMEs many of whom have no long term assets such as building and vehicle of their own, the percentage is even higher since the business current assets are held in inventory, accounts receivables and bank and cash balances. Working Capital Management directly affects the firm's long term growth and survival. This is due to the fact that higher levels of working capital are needed to support sales growth or production.

Unfortunately, however, many small- scale enterprises (SSEs) operate their businesses without monitoring the employment and utilization of their working capital. In reality, owners of SSEs simply cannot afford to disregard the process of working capital management.

According to Marfo - Yiadom (2000) many SSEs do not keep accounting records on their operations.

Thus, in the absence of proper accounting records and information, the SSEs in Ghana face the problem of differentiating clearly between their working capital and profits. Due to this problem, SSEs tend to collapse few years after they have been established.

The objective of working capital management is to maintain the level of net capital that maximizes the wealth of the firm's owner. Other importance of working capital management, according to Diacogiannis (1994) includes the following;

- There exists a direct relationship between working capital management and the firm's liquidity. Effective working capital management provides the firm with adequate liquidity both to pay its maturing short – term obligations as they come due and to conduct the firm's normal day to day operations .There are cases where firms fail because they do not maintain sufficient liquidity, even though they have growing sales.
- There exist a direct relationship between profitability and working capital management. The level of the firm's capital influences its profitability and working capital because of the cost involved in financing the firm's current assets.
- According to Atrill (2006), there is evidence that many SMEs are not very good at managing their working capital and this has been cited as a major cause of high failure rate compared with that of large businesses.

- Small and medium scale enterprises often lack the resources to manage their trade debtors (receivables) effectively. It is not unusual for SMEs to operate without credit control department. The results being that both expertise and the information required to make sound judgement concerning terms of sales and so on, may not be available. SMEs also lack proper debt procedures, such as prompt invoicing and sending out regular statements. This tends to increase the risks of late payment and defaulting debtors. These risks probably tend to increase where there is an exclusive concern for growth. In an attempt to increase sales SME's may be too willing to extend credit to customers that are of poor credit risks. While this kind of problem can occur in businesses of all sizes, SMEs seems particularly susceptible.(ibid)

Another problem, Atrill (2006) asserts, faced by SMEs is lack of market power. Thus SMEs will often find themselves in weak position when negotiating credit terms with large business. Moreover, when a large customer exceeds the terms of credits, the small supplier may feel inhibited from pressing the customer for payment in case future sales are lost. It seems that SMEs have a much greater proportion of overdue debts than large businesses.

An evidence of this was shown by a survey conducted by a Credit Management Research Centre (CMRC) during April and June 2003 which indicated that SMEs with annual sales turnover of less than $5million , are likely to have to wait an average of 60 days for their trade debtors to pay (Sunday Telegraphic , 2003). The reason for the delay suffered by SMEs probably relates to bargaining power of the customers. Thus the customers of SMEs may well be large ones ,who can use threat, such as withdrawing custom , to force SMEs to accept late trade debtor settlement.

In addition, a major survey conducted by the Insolvency Practitioners Society, (CIMA,1994) indicates that 20% of UK corporate failures (the vast majority of which are SMEs) were due to bad debts or poor credit management.

According to Peel and Wilson (1994, p53), if the financial working capital management practices in SMEs sector could be improved significantly, then fewer firms would fail and economic welfare would be increased substantially.

Dodge et al (1994) reveal that some of the most internal problems of SMEs that need to be identified are cash flow management and stock control.

Atrill (2006) argues that lack of financial management skills within SMEs often creates problems in managing stock in an efficient and effective way.
The owners or managers of SMEs are not always aware that there are costs involved in holding too much stock and that there is also costs involved in holding too little. As an effective stock management system is good planning and budgeting systems, there should be a reliable sales forecasts, or budgets, available for stock ordering purposes.

A survey conducted by Chittenden et al (1998) on SMEs in UK indicated that 75% of the respondents prepare sales budgets. Stock management can also benefit from good reporting systems and the application of quantitative techniques for example the economic order quantity methods, to try to optimize stock levels. However, the survey also found that more than one third of the SMEs relied on manual methods of stock control, and the majority did not use stock optimisation techniques.

The management of cash raises similar issues to those relating to the management of stocks. There are costs involved both in holding too much or too little cash. In view of that, there is a need for careful planning and monitoring of cash flows over time (Atrill, 2006).
Chittenden et al (1998) found that 63% of the respondents prepared cash budget. It was also found that cash balance were generally proportionately higher for SMEs than for large businesses. Again more than half of those SMEs in the survey held surplus cash balances on regular basis.

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

2.6 WORKING CAPITAL MANAGEMENT

According to Machiraju (1999), working capital management involves administration of current assets and current liabilities which consists of optimizing the level of current assets in partial equilibrium context. Working capital management involves the relationship between a firms's short –term assets and its short- term liabilities.

Osisioma (1977) also describe working capital as regulation, adjustment, and control of the balance of current asset. In order to manage working capital efficiently, he notes that there must exist two elements as necessary components and desirable quantities. He further demonstrated that good working capital management must ensure acceptable relationship between components of a firm so as to make an efficient mix, which guarantee capital adequacy.

Thus, working capital management should make sure that the desirable quantities of each component of working capital are available for management.

Khan and Jain (2007) also stress that working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship that exists between them. Working Capital Management involves the relationship between a firms's short –term assets and short –term liabilities.

The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses.

Working Capital Management also refers to the decisions relating to working capital and short-term financing and it involves managing the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses. Working capital entails short-term decisions generally relating to the next one year period which are "reversible". These decisions are therefore not taken on the same basis as Capital Investment Decision (NPD) rather they will be based on cash flow and or profitability. Management will use a combination of policies and techniques of working capital. These policies aim at managing the current assets (generally cash and cash equivalent, inventories and debtors).

Khan and Jain (2007) also stress that working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship that exist between them. The goal of working capital management is to manage the firm's current assets and liabilities in such a way that satisfactory level of working capital is maintained in the business.

According to Horne (2000) working capital management is the administration of current assets in the name of cash, marketable securities, receivables, inventories. Block and Hirt (1992) are of the view that, working capital management involves the financing and management of the current assets of the firm.

2.7 WORKING CAPITAL POLICY

Working capital policy is basically about how much working capital the company should maintain should they go for zero risk management, or can they try a bit of daredevilry in their working capital management. Working capital policy involves decisions about company's assets and liabilities- what they consist of, how they are used, and their mix affect the risk versus return characteristics of the company.

Working capital policies, through their effect on the firms expected future returns and risk associated with these returns, untimely have an impact on shareholder wealth. Effective working capital policies are crucial to a firm's long-run growth and survival (Meyer et al 1992).

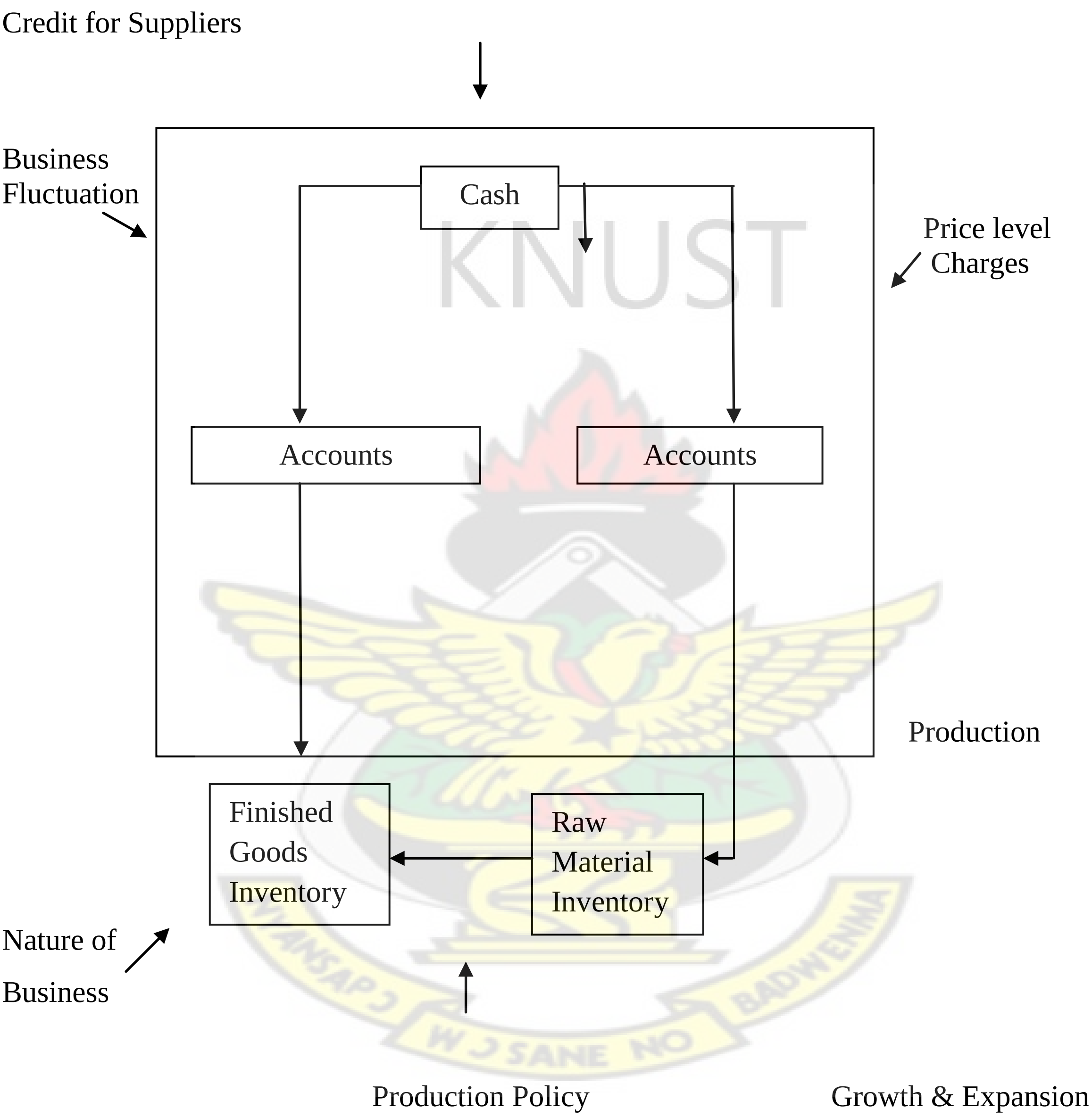
According to Western and Copland (1989) there are two policies of working capital. The first policy deals with the determination of the level of total current assets that should be held by the firm. The option available under this policy boarder on aggressive, conservatism or average management of a firm's working capital.

The second policy confronting management concerns the relationships among types of assets and the way these assets are financed. Typical working capital policy decisions involve a determination of the appropriate level of cash, accounts receivable, and inventory that the firm should maintain. On the financing side, we must determine whether to carry these through credit extension from our supplier, short-term bank loans, or longer-term credit arrangement (Block, & Hirt 1989).

2.8 WORKING CAPITAL CYCLE

The various elements of working capital are interrelated, and can be seen as parts of a cycle.

Figure 1: Operating (Working Capital) Cycle



Source: Authors Construct 2006

Working capital cycle also known as operating cycle, with recent modification to cash, conversion cycle (Richards and Laughlin 1980) reflects the net time interval between actual cash expenditure on a firm's purchase of production resources and the ultimate recovery of cash receipts from product sales. Khan and Jain (2007), also state that the operating cycle can be said to be the heart of the need for working capital. The continuing flow of cash to suppliers, to inventory, to accounts receivable and back into cash is what is called the operating cycle. They further stress that the operating cycle consists of three phases.

In phase one, cash gets converted into inventory which includes purchase of raw materials, conversion of raw materials into work-in-progress, finished goods and finally the transfer of goods to stock at the end of the manufacturing process. In the case of trading organizations, this phase is shorter as there would be no manufacturing activity and cash is directly converted into inventory. The phase is, of course, totally absent in the case of service organisations.

In phase two of the cycle, the inventory is converted into receivables as credit sales are made to customers. Firms which do not sell on credit obviously do not have phase two of the operating cycle. The last phase, phase three, represents the stage when receivables are collected. This phase completes the operating cycle and hence, the firms have to move from cash to inventory, to receivables and to cash again.

Meyer et al, (1992) also add that a company's operating cycle typically consists of three primary activities that is, purchasing resources, producing the product, and distributing (selling) the product. These activities create funds flows that are both unsynchronized and uncertain. They are unsynchronized because cash disbursements (for example, payments for resource purchase) usually take place before cash receipts (for example, collection of receivables). They are uncertain because of future sales and costs, which generate the respective receipts and disbursement, cannot be forecasted with complete accuracy. If the firm is to maintain liquidity and function properly, it has to invest funds in various short-term assets (working capital) during this cycle. It has to maintain a cash balance to pay the bills as they come due. In addition, the company must invest in inventories to meet customer orders promptly. Finally, the company invests in accounts receivables to extend credit to its customers.

Machiraju (1999), also argue that conversion cycle captures the fact that different components of working capital have different life expectancies and are transformed to liquidity flows at different rates. The imbalance between cash inflows and outflows necessitates investment in current assets. The net cash conversion rate identified with the help of cash conversion cycle has to be financed by working capital.

2.9 CASH MANAGEMENT

Managing cash is becoming ever more sophisticated in the global and electronic age of the 1990s as financial managers try to squeeze the last dollar of profit out of their cash management strategies (Block & Hirt 1992).

According to Mclaney (2000) cash is much more than just one element of working capital. As the medium of exchange and store of value, cash provides the linkage between all financial aspects of the firm. More specifically it links short and long-term financing decisions with one another, with decision involving investment both in fixed assets and working capital. Clearly, cash management is one of the key roles in any organisation of any size description.

Meyer, et al (1992) observes that cash and marketable securities are the most liquid of the company's assets. Cash is the sum of currency a company has on hand and the funds on deposit in bank checking accounts. Cash is the medium of exchange that permits management to carry on the various functions of the business organisations.

From economic theory, several writers have theorized in support of Keynes' that the motives for holding cash are merely, transactionary, precautionary and speculative.

According to Keynes (1973), companies hold cash in order to bridge the interval between the time of incurring business cost and that of the receipt of the sale-proceeds. In other words, companies hold a certain amount of cash in order to meet the regular expenses of their activity. Therefore, the higher the firm's ability to schedule its cash flows (depending on their predictability) the weaker the 'transactions-motive' for holding cash will be. The transaction motive illustrates the cash holding of firms and therefore more applicable to SME's.

The precautionary motive pays regard to a company's need to provide for unsuspected expenses and unforeseen opportunities of advantageous purchases.

Thus, if a firm operates in a highly volatile sector, its precautionary cash holding will be higher than that of firms operating in a less risky environment.

The third motive for holding cash refers to the holding of cash for the purpose of speculation. The speculative-motive is based on the assumption that rising interest rates induce decrease in prices of securities and vice versa. Therefore, a firm will invest its idle cash in securities when interest rates are expected to fall. This generates benefits for the firm because the prices of the acquired securities will rise as a consequence of the anticipated fall in interest rate .

Horne (2000) claims that companies do not hold cash for this kind of speculative purpose and can be assumed that this estimation is valid especially for SMEs which usually do not have the resources to make such complex financial decisions.

The success of a firm's failure in cash management depends to a large extent in the strategy adopted. In this direction, Gitman et al (1970) suggest that each company's uniqueness in both receiving and disbursing funds from its operation should be recognised. Further to this, they suggest the adoption of cash management strategies based upon a company's own financial conditions and objectives.

Yankey (1974) also observe that money is a scarce commodity and has several alternative uses. It is necessary that managers utilize every cedi so efficiently that the return on each cedi is approximately equal to the return of a cedi in an alternative investment of comparable risk.

Srinivasan (1999) stresses that cash management strategy aims to cover the following aspects: cash budgeting/forecasting, managing cash flows through organized collection management and proper disbursement management, optimum cash level and investing surplus cash.

Suitable cash policies should be laid out by the Director (finance) or in each of the above cash management areas. Such cash policies help the company to mobilize funds or cash at the right time and place, plan disbursement on the basis of expected collections, ensure optimal utilization of cash and avoid overdraft, finally invest surplus cash in short-term securities.

Moyer et al (1992) state that effective cash management is particularly important for small firms for several reasons: First, small businesses do not have the same, extensive access to capital markets as do large firms. The major source of capital funds is commercial banks for SMEs. Bankers require borrowers to present detailed analysis of their anticipated cash needs.

To do this, the firm must have efficient cash management procedures in place. Secondly, because of a small firm's limited access to capital, a cash shortage problem is both difficult and costly for small firms to rectify than for large firms. Thirdly, because many small firms are growing rapidly, they have the tendency to run out on cash. Growing sales require increases in inventories and accounts receivable, thereby using up the firm's cash resources.

2.10 MANAGEMENT OF RECEIVABLES

Sales on credit are inevitable necessity in the business world today. No business can exist without selling the products on credit.

According to (Joshi, 2000) and Meyer et al (1992), noted that accounts receivables consist of the credit a business grants its customers when selling goods or services which take the form of either trade credit which the company extends to other companies or consumer credit, which the company extends to its ultimate consumers. The effectiveness of a company's credit policies can have a significant impact on its total performance.

Machiraju (2005) also argue that receivables arise out of delivery of goods or rendering of services on credit. Receivables represent claims against others for future receipt of money, goods or services whose value depends upon the volume of credit sales and the policy for collecting such credits.

Joshi (2000) indicated that the primary objective of investment in trade debtor is to increase profit by expanding sales to attract new customers and retain old customers. By constantly increasing its sales and profit the business carves out a bigger niche in the market and elevates its status among competitors.

In determining an optimal credit extension policy, Meyer et al (1992) observe that a company's financial managers must consider a number of major controllable variables that can be used to alter the level of receivables which include credit standards, credit terms and collection effort.

Credit standards are the criteria a company uses to screen applicants in order to determine which of its customers should be offered credit and how much. The process of setting credit standards allows the firms to exercise some degree of control over the "quality" of accounts accepted. The quality of credit extended to customers is a multidimensional concept involving the time a customer takes to repay credit obligation, given that it is repaid and the probability that a customer will fail to repay the credit extended to them.

In establishing credit standards, Horn (2000), suggests a means of categorising customers for the purpose of approving or refusing credit to them. This will enable the firm to avoid investigating the credit worthiness of customers who fall into the refused category. As a basis for credit extension to those who qualify, he suggests the comparison between the expected cost of credit extension and expected profit to be forgone in the absence of credit.

A business should have a rational for collection of receivables. Collection policy can be tight policy which ensures better collection, fewer instances of bad debt but high collection costs. It may, however, antagonize the customers and some of them may switch to competitors. A liberal collection policy will have opposite effect Joshi (2000).

Meyer et al (1992) also assert that the collection effort consist of the methods a business employs in attempting to collect payment of past-due accounts. Some commonly used methods include sending notice or letters informing the customers of the past-due status of the account and requesting payment, telephones and/or visiting the customers in an effort to obtain payment, employing a collection agency and taking legal action against the customers.

The literature related to credit policy is quite extensive. Srinivasan (1999) states that it is essential that companies spell out clearly and precisely the credit policy directions in writing in the general interest of the organisation. The credit policy will be an adjunct to the company's marketing policy and should serve to reinforce. The decision made out of these options is based on the lowest cost. This technique is appropriate for a firm which relies to a larger extent on information obtained from experience with its own customers.

One significant revelation by Western and Copeland (1989) in the management of accounts receivable is the consequence of persistent inflation on accounts receivable. In inflationary period, when interest rates are high and financing requirement becomes large, buyers may delay their payment beyond the normal credit period. These in turn cause the selling firm's investment in account receivables to rise, increasing their financing requirement. The outcome of such a situation is the important role credit and collection policies assume in the broad spectrum of receivable management.

2.11 INVENTORY MANAGEMENT

The word 'inventory' has been defined in many ways. Ballou (2004) defines inventories as stockpiles of raw materials, supplies, components, work in process, and finished goods that appear at numerous points throughout a firm's production and logistics channel's. According to Chase, Jacob and Aquilino (2004) inventory is the stock of any item or resource used in an organisation.

An inventory system is the set of policies and controls that monitor levels of inventory and determine what levels should be maintained, when stocks should be replenished, and how large orders should be. Finally, Pycraft et al (2004) define inventory or stock as the stored accumulation of materials resources in a transformation system.

International Accounting Standards (IAS2) states that Inventories shall be measured or valued at the lower of cost and net realisable value. The costs of inventories comprise all cost of purchase, cost of conversion and cost incurred in bringing the inventories to their present location and condition.

Inventory is an important and valuable asset. It constitutes substantial portion of the total current assets of a business. Inventory covers a wide variety of items which are meant to be procured, 'used up' and sold in an ordinary course of business. It covers the whole range of items starting from input of material and ending with output of finished products.

According to Josh (2000) the item forming inventory can be classified into three categories: (1) raw materials, (2) work-in-process (WIP) and (3) finished goods. Raw material inventory represents the item of basic inputs which are yet to be processed into final product. Work-in-process covers all items which are at various stages of production processes.

These items have ceased to be raw material but have not developed into final products and are at various stages of semi-finished levels. Finished goods inventory consists of the final products which are awaiting sale.

According to Hugo et al (2002) the aim of inventory management is to hold inventories at the lowest possible costs.

Josh (2000) enumerates the objectives of inventory management as fellows;

- To reduce cost of holding stock so that investment in stock outs (running out of stock) production cycle operates smoothly.

- To persuade the business to reduce the levels of inventory whereas one prompts it to increase the same.

When making decisions on inventory, management has to find a compromise between the different cost components, such as the cost of supplying inventory, inventory-holding costs and cost resulting from insufficient inventories.

Starr and Miller (1962) identify three motives for holding inventories which are similar to Keynes three motives for holding cash. The transaction motives which emphasizes the need to maintain inventories to facilitate smooth production and sales operation, the precautionary motive which necessitate holding of inventories to guard against the risk of unpredictable changes in demand and supply forces and other factors; and the speculative motive which influence the decision to increase or reduce inventory levels to take advantage of price fluctuations.

According to Wild (2002) inventory controls is the activity which organizes the availability of items to the customers. It coordinates the purchasing, manufacturing and distribution function to meet the marketing needs. This role includes the supply of current sale items, new products, consumables: spare parts, obsolete items and all other supplies.

Inventory enables a company to support the customer service, logistic or manufacturing activities in situation where purchasing or manufacturing of the items is not able to satisfy the demand. Lack of satisfaction could arise either because the speed of purchasing or manufacturing is too protracted, or because quantities cannot be provided without stocks.

Clodfelter (2003) adds that a good inventory control system offers the following benefits as the proper relationship between sales and inventory can better be well maintained. Without inventory control procedures in place, the stores department can become overstocked or under stocked.

Next, inventory control systems provide a business with information needed to take markdowns by identifying slow-selling merchandise. Discovering such items early in the season will allow a business to reduce prices or make a change in marketing strategy before consumer demand completely disappear.

Merchandise control system allows buyers to identify best-sellers early enough in the season so that re-orders can be placed to increase total sales for the store or department. Merchandised shortages and shrinkages can be identified using inventory control systems. Excessive shrinkage will indicate that more effective merchandising controls need to be implemented to reduce employee theft or shoplifting.

Emphasizing the pertinence of the topic, Gourdin (2001) notes that inventory is one area of logistics that has received great deal of management's attention over the decade. Executives now realize that holding excessive stocks is simply too expensive. Therefore, a great deal of effort has been expended to eliminate unnecessary inventory without compromising customer service.

However, there are numerous situations where inventory simply must be held, particularly when meeting the needs of global customers. Management's goal should be to hold only what is necessary to satisfy customer requirements and manage it effectively, (ibid)

2.12 MANAGEMENT OF ACCOUNT PAYABLES

Accounts payable are one of the major sources of unsecured short-term financing (Gitman, 2009; Hill & Sartoris, 1992). Utilizing the value of relationship with payee is a sound objective that should be highlighted as important as having the optimal level of inventories (Hill & Sartoris, 1992). As a consequence, strong alliance between company and its suppliers strategically improve production lines and strengthen credit record for future expansion.

Western and Copeland (1989) made reference to trade credit as the largest category of short-term credit, representing about one-third of the current liabilities of non-financial corporation. Firms must have policies concerning those who authorize purchasing, and how purchasing is geared to demand. This can lead to proper management of accounts payable

Belt (1979) also adds that accounts payable are more deferrable in that the average payment can be extended by managerial decision. However, this deferability is limited to an unknown extent; eventually, supplier will refuse to seal firms that excessively delay payment.

CHAPTER THREE

RESEARCH METHODS

3.0 INTRODUCTION

This Chapter deals with the research procedures used in the collection and presentation of field data for the study. It covers the research designs, population and sample size, research instrument, data collection procedure and data analysis procedure.

3.1 RESEARCH DESIGN

The study design adopted was descriptive and analytical sample survey. It was chosen in view of the facts that, it is a Small- Scale study of relatively short duration and it involves a systematic collection and presentation of data to give a clear picture of a particular situation. It was aimed at getting relevant information related to working capital management of small and medium scale enterprises in the Sekondi -Takoradi Metropolis.

Fowler (1988) as quoted by Creswell (1994) defines a survey design as that which provides a quantitative or numerical description of some fraction of the population, which is the sample, through the data collection process of asking questions of people. This data collection in turn enables a researcher to generalise the findings from a sample of responses to a population.

The Researcher chose the survey method because the target population of Two Hundred (200) small and medium scale enterprises due to their direct relationship with the problem identified.

Nevertheless, this design as used in the study has some weakness. The major one being that the responses to the questionnaire were mainly an expression of these small and medium enterprises owner, manager/operators opinions about how they manage their working capital.

3.2 POPULATION

The population of the study consisted of eight (8) small and medium scale enterprises registered associated with the National Board for Small Scale Industries (NBSS) in Sekondi-Takoradi Metropolis. Some of the association’s members are located at Sekondi, Kokompe, Kojokrom, Kwesimentsim and Effiakuma. The associations were categorised into eight (8) sectors based on the nature of their operations as depicted in table 3.1 below;

Table 3.1: Small and Medium Enterprises in Sekondi –Takoradi Metropolis.

ACTIVITY TYPE	NUMBER OF BUSINESS	NUMBER SELECTED
Ghana Hairdressers And Beauticians Association	239	48
Ghana National Tailors And Dressmakers Association	315	63
Upholstery And Furniture Association	30	6
Ghana Electronic Servicing Technicians	70	14
Ghana Union Of Professional Photographers	44	9
Wood Workers Association Of Ghana	178	36
Ghana National Associations of Garages	67	13
National Refrigerators and Air Condition Repairs	57	11
Total	1000	200
Source : National Board For Small Scale Industries,		

Source: Field Data

Sampling and Sampling Procedures:

In all, a total of 1000 members registered with the associations were obtained from the local NBSSI office at Takoradi.

A sample quota of 20% of the registered members of each association was selected for convenience. The descriptions of the SMEs by the nature of their business constitute strata of the population. Each business was issued with a registration number as a means of identification. Accordingly, the Registration numbers were compiled according the strata of the business. The sample respondents were randomly selected from each stratum to represent the population. The respondents businesses were contacted with their addresses, telephone numbers, or business locations provided by the National Board For Small Scale Industries in Takoradi and questionnaire was administered.

3.3 RESEARCH INSTRUMENTS

Under this study, both Secondary data and Primary data were used. Secondary source consisted of SMEs, Annual Financial statements, Budgets and Monetary records, Cash flow statement, Asset register, Tax schedule among others.

Questionnaire was administered to collect the primary data from the various SMEs in order to tap more information from those who handle and or keep records of current assets and current liabilities. The questionnaire used was both structured and unstructured.

The researcher employed four research assistants who helped in the collection of data. The questionnaire was presented to ensure their consistency and reliability where necessary, effected their early modification as suggested by Cooper and Schindler (2001). The design and contents of the questionnaire were based on the research questions and objectives. The questionnaire was administered personally by the Researcher and the four research assistants on the sample selected.

3.4 DATA COLLECTION AND ANALYSIS

The researcher and the assistants selected distributed the questionnaire to the sample respondents on the first visit and time was given for its' collection. Contacts were made to all the eight (8) leaders of the various associations through the list provided by (NBSSI) in Takoradi. A follow up was made to a cross section of respondents in order to help them with the filling of the questionnaire. The third visit was used to collect the questionnaire.

In this study the data that was gathered from the field of study was edited to ensure that the questionnaire had been properly completed and contained accurate information. The data was then coded and entered on the computer. The Statistical Package for the Social Science (SPSS) was used for data coding, entry and analysis. The data analysis and presentation was done by using relevant descriptive statistics such as tables, bar charts and pie chart.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 Introduction

The fourth chapter presents the results and discussion of the research. It comprises detail analyses of the study's specific objectives. These objectives examined the management practices of operators of small and medium scale (SMEs) enterprises towards their working capital in terms of liquidity management, account receivables, inventory management and current liabilities. The shortcomings prevent the smooth management of working capital were also ascertained. Two hundred SME operators were selected as the sample size from a population of 1000 operators. However, at the time the study was conducted, one respondent was absent. This reduced the sample size to 199 respondents.

4.1**Demographic data of interviewees**

The demographic factors of the study focused on the category of SME operators, nature and location of their enterprise, their age categories, sex, marital status and educational levels . Results from the research revealed that there were 6 categories of SMS enterprises that operated in the capacities of wood workers, electric service technicians, photographers, hairdressers, garage workers and dress makers. Of all these operators, dress makers constituted the highest percentage (31.2%) of sampled respondents. They were 62 out of the 199 sampled interviewees (Table 4.1)

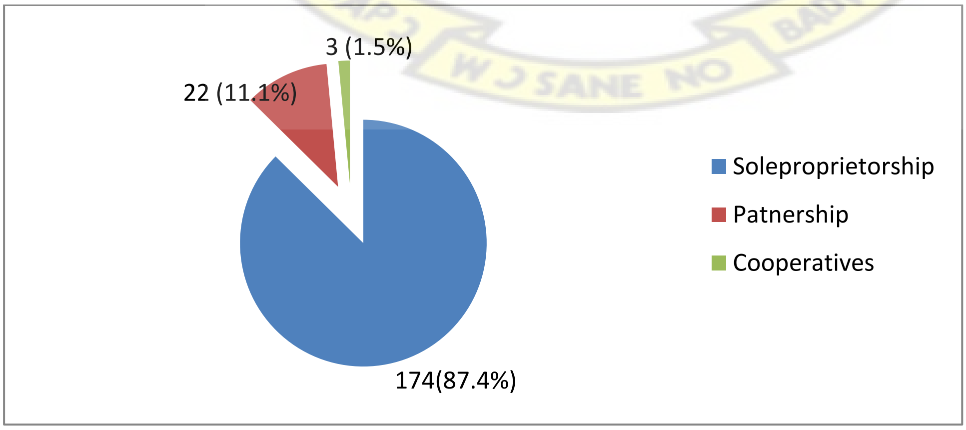
Table 4.1: Categories of SMS enterprises

Categories of operators	Frequency	Percentage
Dressmakers	62	31.2
Hairdressers	49	24.6
Wood workers	41	20.6
Electric service technicians	24	12.1
Garage workers	14	7.0
Photographers	9	4.5
Total	199	100

Source: Field data, 2012.

With regard to the nature of the enterprises, the findings disclosed that the entrepreneurs functioned as sole proprietors, partnered with other colleagues and organized themselves as cooperatives to jointly establish and man their enterprises. However, most of the entrepreneurs were sole proprietors as depicted by Figure 4.1. The sole proprietors constituted the bulk of operators with a frequency of 174 (87.4%) out of the 199 entrepreneurs. The enterprises were located in Takoradi, Sekondi, Kwesimintsim, Kojokrom and Kweikuma.

Figure4.1:Nature of SMS enterprise



Source: Field data, 2012

Table 4.2 illustrates the age groups of respondents. The SME operators were classified into five categories within the ranges of 21 to 30 years, 31 to 40 years, 41 to 50 years, 20 years and below and above 50 years. Out of the 199 interviewees, two declined from providing information about their ages. This reduced the number of interviewees to 197. Of this number, 79 (40.1%) were between 31 to 40 years. This constituted the majority of age group respondents. The rest of the categories had less than 79 respondents. Thus, the analyses implied that majority of the SME entrepreneurs were young.

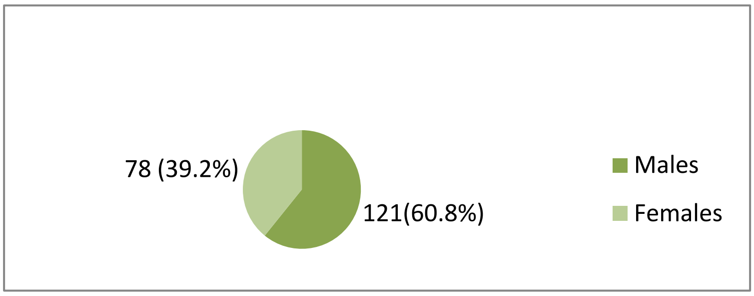
Table 4.2: Age classifications of respondents

Age groups	**Frequency**	**Percentage**
20 years and below	11	5.6
21-30 years	73	37.1
31-40 years	79	40.1
41-50 years	23	11.6
50 years and above	11	5.6
Total	197	100

Source: Field data, 2012.

Of the 199 operators, the analyses in Figure 4.2 portrays further that 121 (60.8%) were males, while 78 (39.2%) were females. This meant that the males dominated the SME sectors relative to their female counterparts. This also indicates the gender insensitivity that prevails in the SME industry. Females may be more apathetic to specialties in the industry that will require them to exert more physical energy like the electrical, wood and garage sectors. Therefore, they are likely to be more engaged in domains like hairdressing and dress making where less physical energy may be required.

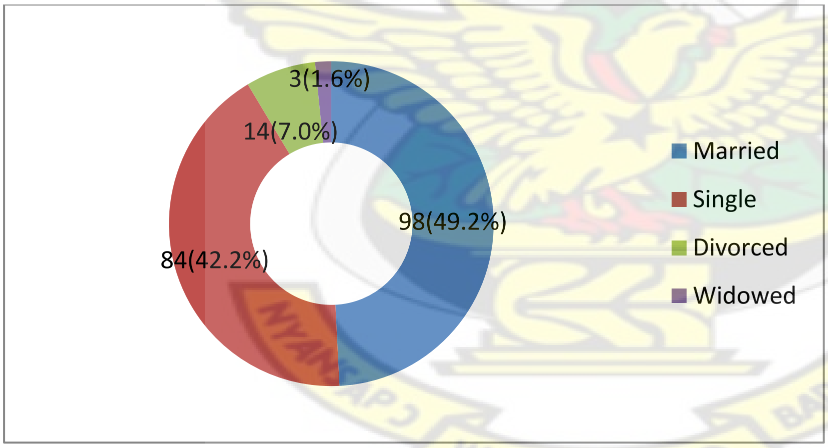
Figure 4.2: Sex of SMS Entrepreneurs



Source: Field data, 2012.

The 199 sampled interviewees were made up of those who were married, single, divorced and widowed. Out of these marital statuses, the married constituted the highest frequency signified by 98 (49.2%). This meant that most of the operators were married (Figure 4.3).

Figure 4.3: Marital status of interviewees



Source: Field data, 2012.

With reference to the respondents' educational levels, the results in Table 4.3 illustrates that 72 (36.2%) of the 199 operators went to school up to the middle or Junior High School (JHS) levels. Sixty-seven (33.7%) had obtained high school education from a secondary school or technical school. Twenty-one (10.6%) entrepreneurs went to the polytechnic, while 19 (9.5%) were university graduates. The rest of the operators were primary school graduates. Thus, the findings signify that most of the SME entrepreneurs, had at least acquired some fundamental education. However, comparatively, their level of education was not as high as their few counterparts who had obtained tertiary education.

Table 4.3: Educational levels of SMS interviewees

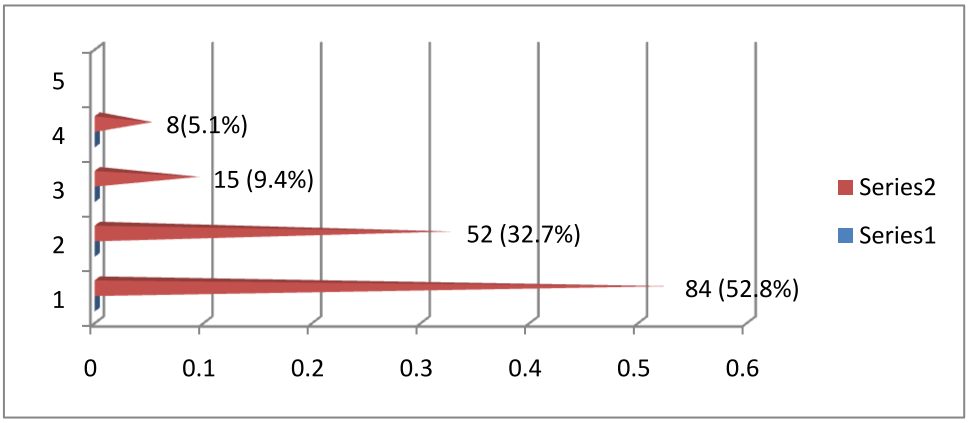
Levels of education	Frequency	Percentage
Primary	20	10.0
Middle school/JHS	72	36.2
Secondary/Technical	67	33.7
Polytechnic	21	10.6
University	19	9.5

Source: Field data, 2012.

4.2 Liquidity management

The elements of liquidity management of SME entrepreneurs dwelt on their financial record keeping and accounting procedures, sourcing for investment funds, their spending, saving and investment patterns. Results from the study depict that out of the 199 interviewed operators, 159 (79.9%) kept financial records, while 40 (20.1%) did not keep such records. Compared to other record keeping methods like the sales and purchase daybooks and general journals, cash books were widely used by the respondents. This was because of the 159 respondents who kept records, 84 used cash books as demonstrated in Figure 4.4.

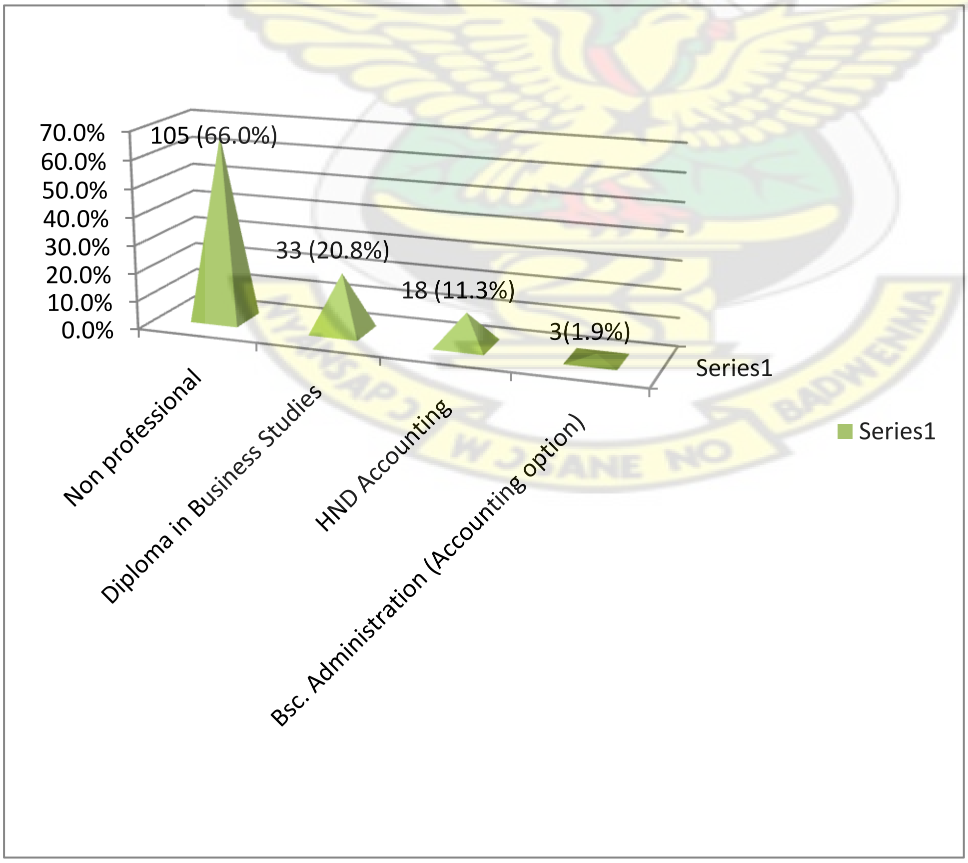
Figure 4.4: Methods of financial record keeping adopted by entrepreneurs



Source: Field data, 2012.

Though the business operators affirmed that they keep records of their finances, the personnel that discharge these duties in their enterprises were not professionals. This was made known by 105 (66%) of the 159 who kept records. As a result, this questioned the integrity and credibility of such records. However, in SME enterprises where professionals were employed, 33 (20.8%) had obtained their Diploma in Business Studies, while 18 (11.3%) were Higher National Diploma (HND) Accounting graduates. Only 3 (1.9%) professionals were university graduates in Bachelor of Science (Bsc.) in Administration (Accounting option) (Figure 4.5). Nevertheless, the non-professional and professional accounting personnel scarcely attended workshops or seminars to update their accounting knowledge. This made their financial record keeping procedures and measures obsolete. This was the position of 132 (83%) of the 159 interviewed SMS operators.

Figure 4.5: Academic qualifications of accounting personnel,



Source: Field data, 2012.

The analyses support findings in Marfo-Yiadom (2000) study of challenges confronting the management of SME industries in Ghana. The writer discovered that SMS enterprises in Ghana employed accounting mechanisms that were antiquated and not satisfactory. Thus, in the absence of proper accounting records and information, these industries encountered the problem of differentiating clearly between their working capital and profits. This crumbles the enterprises few years after they have been established. Nonetheless, the remaining 27 (17%) accountants have attended workshops and seminars to acquaint and furnish themselves with ongoing happenings in the accounting domain. The spill over effects of these training workshops and seminars were the ease with which they executed simplification in executing accounting procedures via the use of Information and Communication Technology (ICT) and the promotion of transparency and accountability within the enterprises.

The research's findings depicts further that 71 (35.7%) out of the 199 entrepreneurs personally generated funds to finance the setting up of their businesses. The rest of the respondents borrowed money from the bank and friends and also purchased their goods on credit to actualize their business plans (Table 4.4). This notwithstanding, after the commencement of the business, 102 (51.3%) operators complained of being unable to obtain cash target in advance for their businesses. However, 96 (48.25) of their counterparts normally attained this target in advance for their business operations. Only 1 (0.5) respondent sometimes got this target.

Table 4.4: Source of investment funds

Source	**Frequency**	**Percentage**
Self financing	71	35.7
Borrowed from the bank	68	34.2
Borrowed from friends	49	24.6
Purchasing on credit	11	5.5
Total	199	100

Source: Field data, 2012.

Going by the interviewees, when they experienced shortages of funds in undertaking their business dealings, they readily borrowed from the bank. This was the strategy that was utilized by 61 of the 187 interviewees who disclosed their strategies. Twelve of the interviewees refused to reveal their coping mechanisms as to how they offset shortages in their business operations. The alternative mechanisms by which other respondents managed shortages in their enterprises are displayed in Table 4.5.

Table 4.5: Mechanisms by which shortage of funds are supplemented by SMS entrepreneurs

Strategies	Frequency	Percentage
Borrow from the bank	61	32.6
Self financing	41	21.9
Borrowed from friends and relatives	31	16.6
Plough back profits	21	11.2
Manage with want we have	14	7.5
No action taken	12	6.4
Purchase goods on credit	7	3.8
Total	187	100

Source: Field data, 2012.

Results from the study showed further that cash requirements were scarcely budgeted or planned for by the SME respondents. This was the revelation of 134 (67.3%) of the 199 operators of SMS industries. Nevertheless, 65 (32.7%) often planned and budgeted for their cash requirements. The absence of planning and budgetary mechanisms to estimate the appropriate quantum of cash required for peculiar business transactions could culminate in the overestimation or underestimation of cash requirements. Eventually, funds can be mismanaged or inadequate to defray pertinent expenses. Atrill (2006), attributes this to the mismanagement of working capital that has been cited as the major cause of high failure rates of SMS enterprises compared to large businesses. In view of this, the writer exhorts that there is the need for careful planning and monitoring of cash flows over time to avert losses and mismanagement.

Proceeds generated from the industries on a daily basis were sent to the bank. This was the method of cash management that was used by 130 (65.3%) of the 199 investors (Table 4.6).

Only 27(13.6%) investors reinvested their cash for transactionary, precautionary and speculative purposes. Thus, the results do not corroborate Keynes (1973) theoretical proposition that business organizations hold cash for transactionary, precautionary and speculative motives. Transactionary motives will mean that SME's are expected to hold a certain amount of cash to meet regular expenses of their activities. The precautionary motive pays regard to a company's need to provide for unexpected expenses and unforeseen opportunities of advantageous purchases. Therefore, if a firm operates in a highly volatile sector, its precautionary cash holding will be higher than that of firms operating in a less risky environment.

Keynes (1973) adds that the speculative motive is based on the assumption that rising interest rates induces a decrease in the prices of securities. On the contrary, falling interest rates instigates an increase in the prices of securities. Therefore, a firm will invest its idle cash in the buying of securities, when interest rates are expected to fall. This will generate benefits for the firm because the prices of the acquired securities will rise as a consequence of the anticipated fall in interest rates. Horne (2000) claims that companies do not hold cash for this kind of speculative purpose. This estimation was found to be valid by the writer especially for SME's which usually do not have the resources to make such complex financial decisions.

Table 4.6: Management methods of cash generated on a daily basis

Methods	Frequency	Percentage
Send to the bank	130	65.3
Keep in office cash till	38	19.1
Reinvest proceeds	27	13.6
Keep in money box at home	4	2.0
Total	199	100

Source: Field data, 2012.

In addition to cash management strategies, 112 (56.3%) of the 199 investors said they often spent within their financial means. On the contrary, 87(43.7%) of their counterparts' expenses often exceeded their financial capability. Furthermore, cash transactions were routinely recorded. This liquidity management practice was carried out by 111 (55.8%) of the

199 interviewed operators. On the other hand, 88 (44.2%) of the operators did not make it a habit to often keep records of their cash transactions.

Table 4.7 further presents the number of times the business operators regularized their saving patterns in the bank. Two of the 199 operators disclosed that they normally did not save their money in the bank but rather preferred the option of personal savings. Nevertheless, the analyses in Table 4.7 show that 91 (46.2%) of the 197 entrepreneurs saved their money in the bank on a monthly basis. Only 16 (8.2%) investors saved daily. The preferred time durations of the other operators for saving their money with the bank are displayed in Table 4.7.

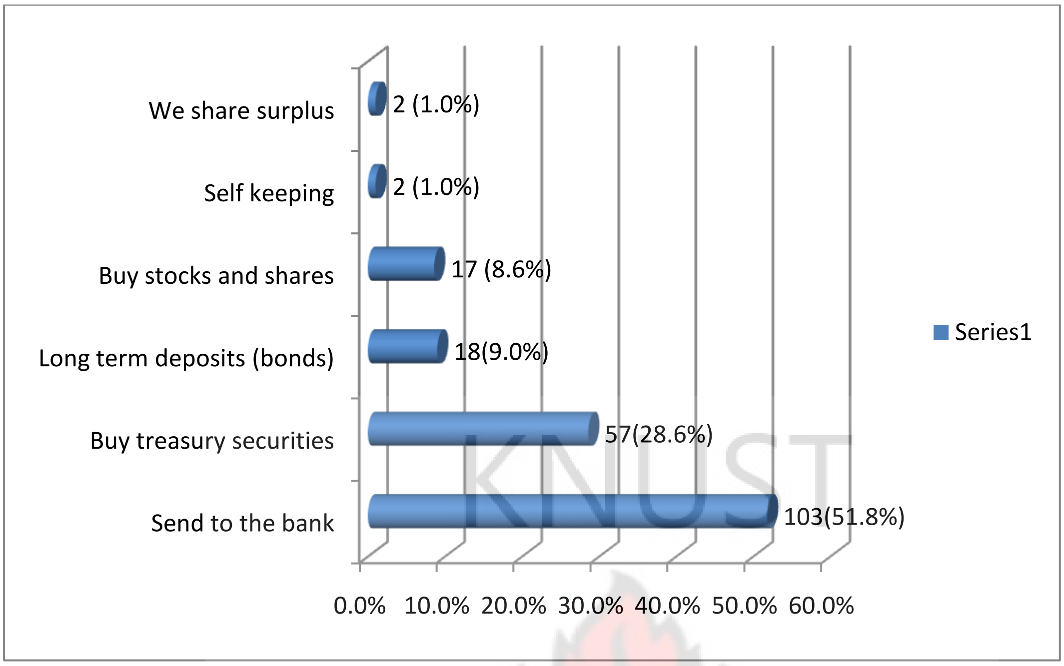
Table 4.7: Time durations used by investors in saving their proceeds with the banks

Time frame	Frequency	Percentage
Monthly	91	46.2
Weekly	70	35.5
Annually	18	9.1
Daily	16	8.2
Every two weeks	1	0.5
Every three months	1	0.5
Total	197	100

Source: Field data, 2012.

As to how the entrepreneurs invested their surplus cash, Figure 4.6 illustrates that 103 (51.8%) of them deposited their money with the bank, while 57 (28.6%) bought treasury securities. Other investments were made in the form of long-term deposits (bonds), the buying of shares and stocks, sharing surpluses and self keeping. The results confirm the observations of Horne (2000) that companies, most especially SMS enterprises, often do not allocate cash for investments in securities by virtue of the fact that they do not own sufficient resources to make such complicated financial decisions.

Figure 4.6: Ways by which surplus cash is invested by entrepreneurs



Source:Fielddata,2012

4.3Accounts receivables

The account receivables were examined in line with the credit terms offered by SMS entrepreneurs to their customers, formal credit investigation procedures and types of sanctions meted out to credit defaulters or debtors. Sales on credit are inevitable in every business in the world today. Out of the 199 respondents, this was affirmed by 152 (76.4%) who said they sometimes sold their goods on credit. Nonetheless, 47 (23.6%) of their colleagues did not sell their goods on credit. Of the 152 interviewees who operated their businesses on credit, 70 (46.1%) said their debtors often paid them in 14 days. Three (2%) of the operators said the settlement of their bills was contingent on the agreement arrived at between them and their debtors. The varied time durations given by the other entrepreneurs are presented in Table 4.8.

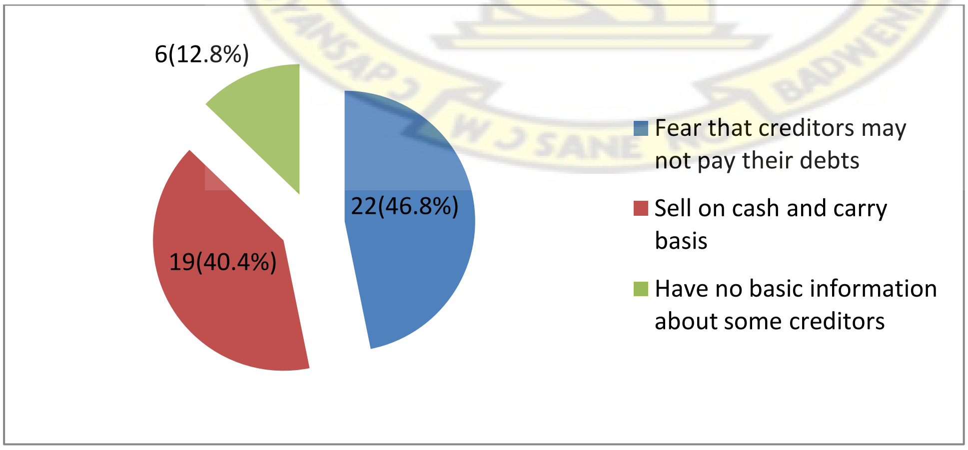
Table 4.8: Time durations given by debtors to settle their debts

Durations	**Frequency**	**Percentage**
Seven days	18	11.8
Fourteen days	70	46.1
Twenty-one days	43	28.3
One month	12	7.9
More than one month	6	3.9
Depends on the agreement	3	2.0
Total	152	100

Source: Field data, 2012.

The reasons that were given by the 47 interviewees who did not offer credit were that, their debtors may eventually not settle their debts. The businesses of some of the respondents were also modelled on a cash and carry basis. Other interviewees had no basic knowledge of some of their debtors and could therefore not sell on credit. Nevertheless, the fear that debtors may eventually become bankrupt was the paramount reason that was given by 22 (46.8%) of the 47 respondents (Figure 4.7).

Figure 4.7: Reasons given by SMS investors for not offering sales on credit



Source: Field data, 2012.

Of the 152 entrepreneurs who credited their goods, 108 (71.1%) undertook formal credit investigations before granting credit to their customers. Thus, 44 (28.9%) never undertook such investigations. The 108 SME operators employed credit investigations procedures to assess the credit worthiness of their customers. These procedures included conducting investigations on customers' past records from other business firms, checking their past financial dealings with their industries and checking their bank references. With regard to the first procedure, 15 respondents declined from providing any responses. This reduced the number of respondents to 93. Forty-seven (50.5%) of the 93 operators checked their customers past records from other business firms. However, 46 (49.5%) of the operators did not apply this method of credit investigation (Table 4.9)

Fourteen (14.8%) interviewees refused to comment on the second procedure. This slashed the number of interviewees to 94. Sixty-nine (73.4%) of the 94 investors investigated their customers past financial dealings with their industries, while 25 (26.6%) of the investors did not apply this method. Furthermore, 24 of the entrepreneurs did not want to comment on the third procedure. This curtailed the number of entrepreneurs to 84. Forty-four (52.4%) of these 84 entrepreneurs checked their customers' bank references, but 40 (47.6%) of them sidelined this procedure (Table 4.9).

Table 4.9: Types of formal credit investigation methods applied by the SME'S respondents

Procedures	Yes		No		Total	
	Freq.	%	Freq.	%	Freq.	%
Investigate customers past records from other business firms	47	50.5	46	49.5	93	100
Check customers past financial dealings with the enterprise	69	73.4	25	26.6	94	100
Check customers bank reference	44	52.4	40	47.6	84	100

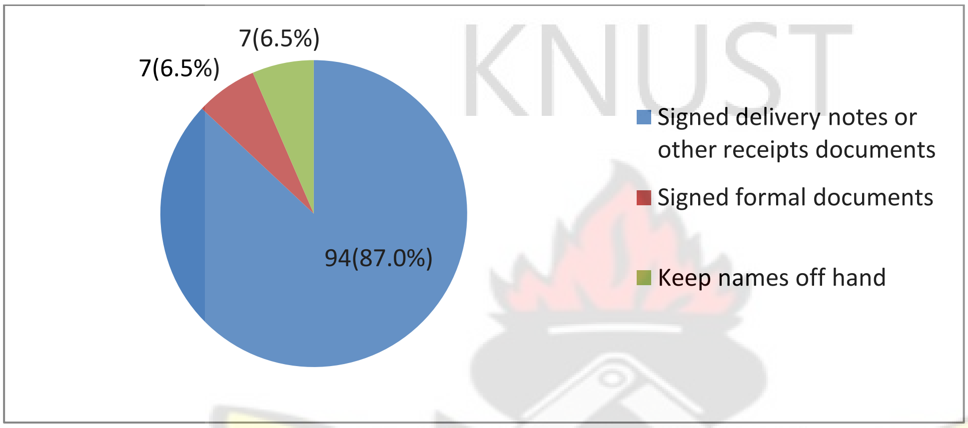
Source: Field data, 2012.

The analyses suggest that most SME investors had no credit extension policy in place to inform them about who should and who should not be given credit. It is for this reason that they opted for formal credit investigations procedures, which were inappropriate mechanisms to evaluate the credit worthiness of their customers. Going by the postulations of Meyer et al., (1992) a viable and veritable credit extension policy should consist of credit standards. These standards are the criteria a company uses to screen applicants, in order to determine which of its customers should be offered credit and how much. The process of setting credit standards also allows firms to exercise some degree of control over the quality of accounts to be accepted.

In formulating credit standards, Horn (2000) proposes that a means of categorizing customers for the purpose of approving or refusing credit to them should be established. This will spare firms the head ache of investigating the credit worthiness of customers who fall under the refused category. As a basis for credit extension to those who qualify, the writer suggests a comparison between the expected cost of credit extension and anticipated profit to be forgone in the absence of credit.

In granting credit to customers, there ought to be an evidence to suggest their indebtedness. Nonetheless, 44 of the 152 investors who sold their goods on credit sidelined this crucial aspect of their businesses. The remaining 108 investors took cognizance of this aspect in controlling their accounts receivables. Ninety-four (87%) of them got their customers to sign delivery notes or other receipt documents. Seven (6.5%) of the entrepreneurs ensured that their customers signed formal documents, while the remaining 7 (6.5%) respondents simply kept the names of their customers off hand (Figure 4.8). Similarly, out of the 152 interviewed respondents who credited their goods, 97 (63.8%) offered cash discount to their customers, while 55 (36.2%) did not offer such discount.

Figure 4.8: Evidences to suggest customers' indebtedness



Source: Field data, 2012.

Credit granting is often associated with challenges, some of which are a default in payment and non-payment of debts by debtors. The research's findings disclosed that in cases where customers may refuse to pay their debts, investors can take legal action against them. In some cases, debtors may be pardoned through the writing off of their debts. Debtors can also be fined by investors and business transactions are normally terminated with them. Debtors could also be told to service their debts whenever they are ready and also be warned to complete the payments of their debts before another consignment of goods can be delivered to them (Table 4.10).

Alternatively, some of the SME respondents can confiscate their customers' properties, while others may decide not to take any action. However, legal action was often taken by most entrepreneurs against debtors who refused to service their debts. This was the revelation of 39 (29.8%) of the 131 interviewees who provided responses on this issue (Table 4.10). Holistically, 152 of the interviewees rendered sales on credit. Nevertheless, 21 of the 152 interviewees declined commenting on this issue. This reduced the number to 131 respondents who readily provided responses.

Table 4.10: Actions taken against credit defaulters

Actions	Frequency	Percentage
We take legal action	39	29.8
We take no action	33	25.2
Stop business transactions with them	20	15.3
Cancel their debts	17	13.0
Ask them to pay whenever they have the money	10	7.6
Warn them to complete debts before more goods can be sold to them	5	3.8
Seize their properties	4	3.1
Ensure they pay a fine	3	2.2
Total	131	100

Source: Field data, 2012.

Evidence from the results suggests that there is the absence of credible collection mechanism in most SME businesses. Meyer et al., (1992) recommend that collection efforts are requisites and imperative in determining an optimal credit extension period for every SME enterprise. Collection efforts consist of the methods a business employs in attempting to collect payment of past-due accounts. Some commonly used methods include sending notices or letters to inform the customers of their financial obligations and requesting payment, telephone calls and visiting customers in an effort to obtain payment, employing a collection agency and taking legal action against defaulters. Joshi (2000), however, warns that a tight collection policy may eventually antagonize customers, some of whom can switch to other competitors. Thus, the writer cautions that a liberal collection policy should be designed and executed by most SMS businesses.

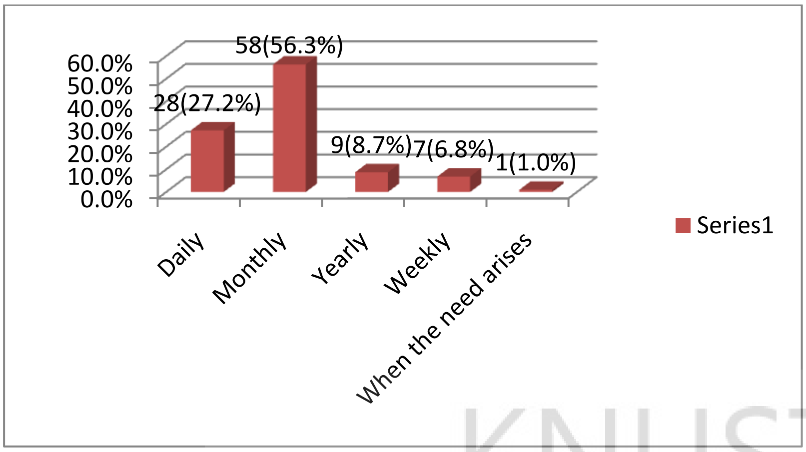
4.4 Management of inventory

Inventory management focused on issues bordering on the source of raw materials, stock taking and stock requesting policy. Findings from the study depicted that 105 (52.8%) of the 199 entrepreneurs sourced for their raw materials from local companies to undertake production activities. Thirty-four (17.1%) of the operators bought their raw materials from foreign companies, while 60 (30.1%) obtained their materials from local and foreign sources. Fortunately, out of the 199 interviewees, 120 (60.3%) did not experience wastage in their storage and use of raw materials. This was because they hardly piled up raw materials in their warehouses. This was not the case with 79 (39.7%) of the interviewed respondents who rather piled up materials in their warehouses.

Implicitly, the results indicate that majority of the entrepreneurs probability instituted inventory control procedures in their businesses to minimize the wastage of raw materials. Clodfelter (2003) even asserts that the putting in place of inventory control mechanisms is one sure way of preventing SMEs over stocking or under stocking. The writer adds that inventory control machineries also provide a business with information needed to take markdowns by identifying slow-selling merchandise. Discovering such items early in the season will allow a business to reduce its prices or make a change in marketing strategy before consumers' demands completely disappear.

Apart from circumventing the stockpiling of materials in stores, the operators equally kept records of their materials. This was actualized by 120 (60.3%) of the 199 SMS operators. On the contrary, 79 (39.7%) of the investors did not keep records of their materials. On the question of stock taking, it was realized that 103 (51.8%) of the respondents regularly took stocks of their materials, while 96 (48.2%) of them never carried out such an activity. As to how often stocks were regularly taken, 58 (56.3%) of the 103 respondents did it on a monthly basis. The rest of the interviewees took stocks on daily, yearly and weekly bases. It was only when the need arose that one (1%) of the respondents embarked on a stock taking activity (Figure 4.9).

Figure 4.9: Time duration of stock taking by entrepreneurs



Source: Field data, 2012.

Though there seemed to be apt inventory control machineries that were operated by most SMS industries, results from the research did not, however, support the purposes for holding inventories. Starr and Miller (1962) elucidate that the rationale for holding inventories are supposed to be premised on three motives, which are transaction, precautionary and speculative. Transaction motives emphasize the need to maintain inventories to facilitate smooth production and sales operation. The precautionary motive necessitates the holding of inventories to guard against the risk of unpredictable changes in demand and supply forces, as well as other factors. The speculative motive influences decisions to increase or reduce inventory levels, in order to take advantage of price fluctuations.

Further analyses of the study indicate that most of the operators of SMS did not have a re-order level policy in their enterprises for requesting stock or materials. This was affirmed by 101 (50.8%) of the 199 entrepreneurs. On the other hand, 98 (49.2%) investors had established such a policy. Therefore, the findings imply that most of the investors did not have a merchandise control system in their industries. Gourdin (2001) notes that the establishment of such a system within any enterprise allows buyers to identify the best sellers early enough during a peculiar season, so that re-orders can be placed to increase total sales for the store or department. Merchandised shortages and shrinkages can be identified using inventory control systems. Excessive shrinkage will indicate that more effective merchandising controls need to be implemented to reduce employee theft or shoplifting.

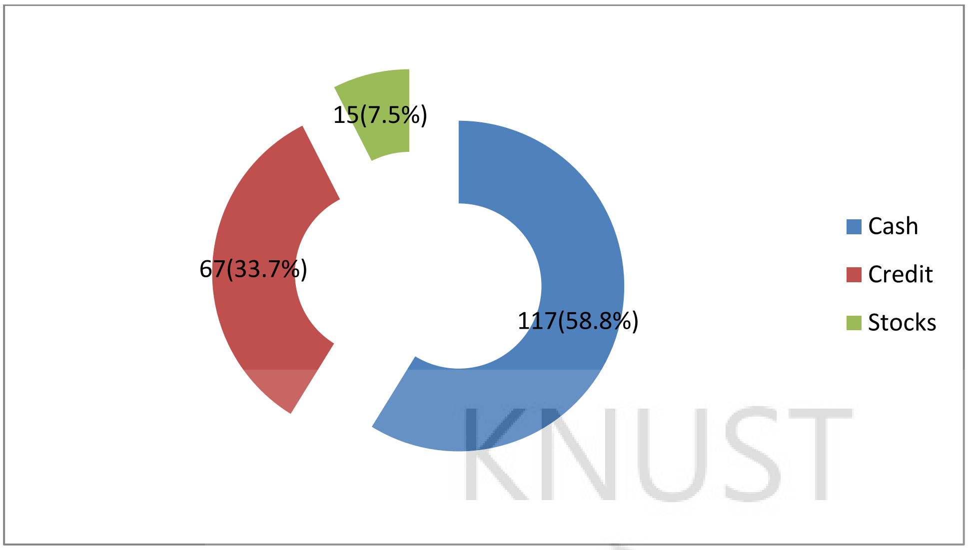
4.5 Current Assets

The benefits of credit granting, terms of credit, investment funds and components of working capital constituted the concept of current assets in the study. Earlier, the study divulged that out of the 199 respondents, 152 sometimes sold their goods on credit. One hundred and thirty-two (86.8%) of the 152 entrepreneurs admitted that credit granting attracted customers, which accelerated the growth of their businesses. This is in line with Joshi's (2000) postulations that the primary objective of investment in trade debtor is to increase profit by expanding sales to attract new customers and retain old ones. By so doing, sales and profits increase, which provides the leeway for a business to carve out a bigger niche in the market and to elevate its status among competitors. Nonetheless, the research findings depict further that credit granting in no way had effects on the businesses of 20 (13.2%) of the investors.

In granting credit, negotiations are sometimes embarked on between investors and their debtors. This paves the way for a mutual business relationship and understanding between both parties. This was, however, not the case with 52 (34.2%) of the 152 SMS operators who rarely negotiated with their creditors to extend the credit periods. On the other hand, 100 (65.8%) of the operators ensured that they negotiated credit terms with their debtors. Nevertheless, Atrill (2006) notes that the dangers associated with credit extension is extending to customers who may be of poor credit risks. The writer propels that while this kind of problem can occur in businesses of all sizes, SMS enterprises are particularly susceptible. This is further compounded by the absence of proper debt procedures such as prompt invoicing and sending out regular statements, which tend to increase the risks of late payment and defaulting debtors.

As to how investment funds were used by most of the interviewees, 116 (58.3%) of the 199 interviewed investors used short-term funds to finance short-term projects or investments. Conversely, 75 (37.7%) of the entrepreneurs used their short-term funds for long-term investments, while 8 (4%) of them were quiet on this issue. Cash, stocks and credit were the components of working capital in this study. Of all these components, cash was the most preferred option of working capital. This was confirmed by 117 (58.8%) out of the 199 operators. Sixty-seven (33.7%) and 15 (7.5%) respondents on the contrary, rather opted for the use of credit and stocks respectively, as their major ingredients for working capital (Figure 4.10).

Figure 4.10: Preferred components of working capital by entrepreneurs



Source: Field data, 2012.

Despite the skewed preference for cash by respondents, 95 (47.8%) out of the 199 respondents rated cash, stocks and credit as having equitable value. This contradicts Mclaney's (2000) assessment of cash as playing a leading and instrumental role in the working capital of most organizations irrespective of their sizes, compared to the other forms of working capital such as stocks and debts. The writer further observes that cash is the most liquid of an enterprise's assets. It is also the medium of exchange that permits management to execute varied functions of business organizations. It equally provides the linkage between all financial aspects of a firm. Specifically, it links short and long-term financing decisions, which involves investment in fixed assets and working capital. Going by the study's findings, 1 (0.5%) of the respondent, however, contended that the value of cash, stocks and credit was contingent on how well a business was managed. Eight (4%) interviewees were of the view that none of them was valuable. The opinions of other entrepreneurs with regard to their evaluation of the constituents of working capital are presented in Table 4.11.

Table 4.11: Respondents' assessments of ingredients of working capital

Evaluations	Frequency	Percentage
All three are of equal value	95	47.8
Cash is most valuable	89	44.7
None is important	8	4.0
Stocks are most valuable	3	1.5
Cash and stocks are rather valuable	3	1.5
Their value depends on how the business is managed	1	0.5
Total	199	100

Source: Field data, 2012.

4.6 Challenges faced by SMS enterprises in the management of working capital

The hurdles averting the smooth management of all the constituents (cash, account receivables, inventories and current liabilities) of working capital by SMS industries were determined in this section of the study. The setbacks that are normally encountered by SMS investors in the management of the working capital of their enterprises are varied. Some of which may be financial crisis, insufficient logistical support and inappropriate credit mechanisms. In terms of liquidity or cash management, 159 (79.9%) of the 199 investors were not sufficiently grounded in most Information and Communication Technology (ICT) software programmes. This prompted them to rather opt for manual record keeping methods such as cash books, sales and purchase daybooks and general journals.

Forty (20.1%) of the respondents did not keep records at all because it often escaped their memory. This tallies with Marfo-Yiadom (2000) results from a research conducted on SMS enterprises in Ghana. Going by the writer's discoveries some SMS entrepreneurs in Ghana do not keep accounting records on their operations. Thus, in the absence of these records, they encounter the misnomer of distinguishing concisely between their working capital and profits. By virtue of this shortcoming, their enterprises eventually crumble a few years after they have been established. Atrill (2006) adds that a direct relationship exist between profitability and working capital management. The level of a firm's working capital influences its profitability, because of the cost involved in financing its current assets. Atrill (2006) concludes that there is therefore evidence that many SMS industries in Ghana are not very good at managing their working capital, which accounts for their high failure rates.

The employment of professional accountants by SMS operators also posed a problem to 105 (66%) of the 159 operators who kept records of their finances. They did not have the financial capability to employ professional accountants. This was their reason for employing non-professional accountants. Only 54 (34) of the 159 investors could afford to employ and pay for the services of professional accountants. An overall challenge for both categories of accountants was their deficiency in current record keeping mechanisms and procedures. The reason for this was owing to the inadequate financial strength of their employers (investors) who could not sponsor them to training workshops and seminars. Undoubtedly, an elevation of the technical know-how of the accounting personnel was to be abreast and furnished with up-to-date accounting programmes and that is imperative for the industries. This is because the use of obsolete accounting methods in any business, Marfo-Yiadom (2000) argues, can culminate in the poor management of its working capital.

The cash target that was set to foster investment was scarcely attained by most of the interviewees. This was divulged by 102 (51.3%) of the 199 interviewees, who hardly had enough funds at the bank to offset any shortage in their cash target. Only 97 (48.7%) respondents could attain their cash target. Apart from the inability to cover their cash target, 134 (67.3%) of the 199 investors were also guilty of either overestimating or underestimating their expenses. This was by virtue of the fact that they rarely drew up budgets to cater for their expenditure patterns. Nonetheless, 65 (32.7%) of the SMS operators budgeted for their expenses and strictly observed it.

In an attempt to make provision for raw materials which were considered to be crucial in sustaining the industries, 87 (43.7%) entrepreneurs spent beyond their financial strength. This was however not the case with 112 (56.3%) of their 199 colleagues who spent within their financial means. Only 57 (28.6%) operators could invest in treasury securities, which according to Hornes (2000) could provide additional investment funds and augment their revenue base. However, the writer posits that companies, most especially SMS businesses, do not save for such investments because they often do not have the financial resources for such complex decisions. One hundred and three (51.8%) respondents saved their money with the bank, while 48 (9%) invested in long term deposits. Seventeen (8.6%) of the operators channelled their spare funds to the buying of shares and stocks. Two (1%) interviewees personally saved their funds, while the other respondents shared their surplus cash.

With regard to credit granting, findings from the study depicted further that though 152 (76.4%) out of the 199 operators sometimes sell their goods on credit they had no suitable credit extension policy. Of the 152 entrepreneurs, 131 (86.2%) experienced cases of default in payment from their debtors. However, 39 (29.8%) of the 131 investors took legal action against their debtors. Twenty (15.3%) investors abrogated business transactions with debtors, 17 (13%) cancelled debts and 10 (7.6%) relaxed the payments of debts by giving debtors the chance to service their debts whenever they had money. Five (3.8%) respondents issued an ultimatum to their customers to complete payments of their debts before more goods could be sold to them. Only 33 (25.2%) interviewees took no action against their customers when they defaulted in paying their debts.

The inventory management machinery was such that 101 (50.8%) of the 199 respondents did not institute a re-order level policy in their industries in requesting for raw materials. This culminated in the charging of exorbitant prices for poor quality stocks. On the contrary, 98 (49.2%) of their counterparts established a re-order level policy. Due to this policy, they often procured stocks of higher quality at moderate prices.

With regard to the management of the enterprises' current assets, 52 (34.2%) of the 152 interviewees who sold their goods on credit were unable to negotiate credit terms with their debtors because of the non existence of trust between the parties. This notwithstanding, the rest of the 100 (65.8%) respondents could negotiate their terms of credit with creditors because of the prevalence of trust between the parties. Eight of the 199 operators declined from divulging information as to how they used their short-term funds. However, 75 (39.3%) of the 191 entrepreneurs who readily disclosed facts about the usage of their short-term funds said they rather used these funds for long-term investments because they did not have sufficient cash to execute their business plans. Nonetheless, 116 (60.7%) of their colleagues did not encounter this challenge. They invested their short-term funds aptly by financing short-term projects.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The fifth chapter presents the summary, conclusions and recommendations of the research. The summary highlights the salient findings per the specific objectives. Conclusions and recommendations were drawn based on the summary of the findings. The study covered 199 operators of SMEs in the Sekondi-Takoradi Metropolis, Ghana.

5.1 Summary

As to how issues on liquidity management were tackled, the major findings for objective one depicted that:

- The majority of respondents kept records of their financial transactions.
- Many of the entrepreneurs did not employ professional accountants who could appropriately keep financial records for their industries.
- Most investors could not send their accountants for professional training seminars and workshops.
- Most investors personally generated funds to establish their enterprises.
- More of the operators borrowed money from the bank to augment their investment funds.
- The interviewees hardly prepared budgets to guide their expenditure patterns.
- Many entrepreneurs saved their business proceeds on a daily basis with a bank.
- Most respondents carried out expenses within their financial means.
- The investors did not invest their surplus cash, but rather saved it with a bank.
- Many of the SMS respondents did not have the financial muscle to invest in the buying of securities.

With reference to the management of account receivables of the SMEs, the salient results of objective two showed that:

- Investors sometimes sold their goods on credit and were paid on time by their debtors.

- The majority of operators embarked on formal credit investigations before entering into an agreement with their customers.
- Though the respondents sold on credit and undertook investigations before selling goods on credit, many of them did not have a comprehensive credit policy to monitor credit granting within their industries.
- Investors who credited their goods, prepared documents to suggest debtors' indebtedness and also issued cash discount to them.
- Most operators who sold on credit proffered charges against defaulters in court.

The major discoveries for objective three concerning the enterprises' inventory management indicated that:

- Many entrepreneurs bought their raw materials from local companies.
- The interviewees hardly stock piled raw materials. However, they kept records of them regularly.
- The majority of respondents did not have a re-order level policy in their industries in requesting for stocks.

The major highlights for objective four, which dwelt on the industries' current liabilities, divulged that:

- Most respondents, who rendered sales on credit, used this to stimulate growth in their businesses.
- The operators negotiated credit terms with their debtors to build and sustain a fruitful business relationship between the parties.
- The entrepreneurs appropriately managed their investment funds by using short-term funds for short-term projects.
- More investors preferred evaluating the operationalisation of their working capital in cash or liquid terms, than stocks and credit terms.

With regards to the flaws that were witnessed by the SMEs interviewees in managing their working capital, the salient findings with regards to objective five revealed that:

- The accountants who were employed by the SME operators were not sufficient computer literates to automatically safeguard financial records for their bosses.
- Equally, the entrepreneurs did not have the financial prowess to employ professional accountants.
- Most investors were often cash strapped to sponsor their accountants to professional training programmes geared towards an enhancement of their capacity.
- The respondents hardly obtained their cash target in advance for their investments. Owing to this shortcoming they often borrowed money from the bank to top up their investment funds.
- The majority of interviewees either overestimated or underestimated their expenses, as they hardly prepared budgets to guide and monitor such expenses.
- Many entrepreneurs did not have the financial capability to channel miscellaneous funds to the buying of securities.
- Most respondents did not have an elaborate credit policy to regulate credit granting in their enterprises.
- A default in debt payment by debtors was a paramount problem that was experienced by majority of the SME operators.
- Astronomical prices and poor quality of stocks were major setbacks in the inventory apparatus of investors, as they did not have a re-order level policy in their industries for requesting stocks.
- Few of the operators did not trust their customers well enough to negotiate credit terms with them.
- In an attempt to execute and accomplish long-term goals, few of the entrepreneurs rather utilized their short-term funds for such purposes. This culminated in the misappropriation of such funds.

5.2 Conclusions

Evidence gleaned from the summaries of the results suggests that:

The investors conformed to the conventional liquidity management mechanisms of business institutions by safeguarding financial records, supplementing cash shortages with loans from the bank, saving profits on a daily basis and spending within their financial capability.

The entrepreneurs managed account receivables in their investments by selling on credit to customers. Prior to such an arrangement, formal credit investigations were made to ascertain the credit worthiness of customers. Thereafter, documents were prepared and compiled as proof for customers' indebtedness. When a default in payment arose, legal action was taken against most debtors.

The buying of stocks from local companies at moderate quantities and regular stock-taking were the strategies used by the operators in managing their inventory machineries. However, often times, they eventually bought expensive and poor quality stocks, as they did not have a re-order level policy in requesting for stocks from the appropriate buyers or manufacturers during peculiar seasons.

Sales on credit geared towards promoting growth in the industries, the negotiation of credit terms with debtors, the utilization of short-term funds for short-term goals and the use of cash to assess the management of working capital, were the methods used by investors to manage their current assets.

Computer illiteracy of employee accountants, insufficient funds to employ professional accountants and upgrading the skills of non-professional accountants were some of the challenges that impeded the smooth utilization of working capital by the entrepreneurs. Other setbacks included the consistent procurement of loans to fulfil cash targets, the overestimation or underestimation of spending patterns, inadequate cash to purchase treasury securities and the absence of a reputable credit policy. Regular default in debt payments and high cost of stocks that was often associated with low quality were other hitches confronted by operators of SME'S investments.

5.3 Recommendations

The recommendations of the research were premised on the summary of and conclusions from the results and discussion. Based on the summaries of the analyses and conclusions, SME'S entrepreneurs are urged to:

- Establish organizations and groups like civil society organizations, regional, district, community and interest groups to jointly organize and sponsor training programmes for their accounting personnel. In organizing such programmes, each entrepreneur in an organization or group should be levied some amount of money that will cater for logistics, payment of resource persons, ICT training and other training needs and materials. This cost-sharing venture can offset the financial burden of an entrepreneur to singlehandedly train an accountant. Additionally, entrepreneurs can organize in house training programmes to personally train or invite specialized resource persons to update the accounting practices of their personnel.

- Identify their investment priorities particularly those that are crucial in sustaining their businesses in the long run. They should sacrifice to channel a chunk of their funds to finance and achieve these priorities that will enable them to generate extra cash or profits to plough back into other sectors of their industries. When this strategy has been achieved, they can generate sufficient funds to augment their cash target, buy treasury securities and finance other relevant investments that are instrumental to the success of their businesses.
- Prepare budgets each time they intend to embark on major expenses. This will forestall unnecessary, unwanted, overestimated and underestimated expenses.
- Formulate a credible credit policy for their enterprises. In crafting such a policy criteria should be set as to the conditions and terms for credit granting. The policy should also take cognizance of the maximum number of days creditors can defray their debts. Where necessary, grace periods can be added to these numbers of days. This will spare operators the head ache of undertaking formal credit investigations about their customers and from chasing or policing them if they became bankrupt. When creditors are unable to service their debts, legal action can be taken against them.
- Create a re-order level policy for their institutions that will create an enabling environment for them to request for the supply of moderate and high quality stocks. An institution of such a policy paves the way for businesses to identify the best sellers of their wanted stocks in the market at peculiar seasons. Another spill over effect of such a policy shall be the eschewing of price fluctuations and pirated goods.

REFERENCES

Archeier, H. K. and Seibel, H. D. (1987). 'Small Scale Industries and Economic

Development in Ghana,' Business Behaviour and Strategies in Informal Sector Economics,

Verlag Breitenbech, Saarbruck, Germany.

Allan, P. (2001). *Accounting and Finance: A firm foundation*, Mishawaka, USA.

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

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

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

Ben – Horim , M and Levy, H.(1983). 'Management of Accounts Receivable under inflation'' Financial Management, Vol. 12, NO. 1 pp 42-48.

Buame, S.K. (1996). *Entrepreneurship: A Contextual Perspective*. Lund Sweden ; Lund University press.

Brian, B., (1979), "*Working Capital Policy and Liquidity in the Small Business".* Journal of

Small Business Management, Vol. 17, Issue 3.

Ballon R. H. (2004). *Business Logistics/Supply Chain Management*. Planning, Organising

and Controlling the Supply Chain 5th Ed., Pearsons-Prentice Hall. USA.

Block, B. S. and Hirt, G.A. (1992). *Foundation of Financial Management* , 6th ed,-USA.

Chase, R. B., Jacob F. R. & Aquilano N. J. 2004. *Operations Management for Competitive*

Advantage.10th ed. International ed, MC Graw Hill . NY.

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

Cook. P. and Nixon, F.(2000). *"Finance and Small and Medium-Sized Enterprise Development,"*

IDPM, University of Manchester, Finance and Development Research Programme Working

Paper Services, Paper No. 14.

Clodfelter, R. (2003). *Retail buying from basics to fashion* 2nd ed, USA.

Cooper, D.R. and Schlindler, P. S. (2001). *Business Research Methods*. Bosten: Irwin MC Graw Hill.

Enthoven, A . J. H. (1977). *Accounting Systems in Third World Economics*. North Holland Oxford.

Fitzerald, R. (1990). "*A handbook of practical Business Finance*". London Kogan Page Limited.

Gray, L. R. (1987). *Educational Research Competencies for Analysis and Application*.

Columbus: Ohio, Merril Publication Company.

Gitman, J. L. (1979). "*An Assessment of Corporate Cash Management Practice"*.

Financial Management. Spring, pg. 32-41.

Gourdin , K. N. (2001). *Global Logistics Management*. A competitive advantage for the new millennium. Blackwell Business. USA.

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

Haswell, S. & Holmes, S. (1989). *Estimating the Small Business Failure Rate*: A Reappraisal

Journal of Small Business Managrment,14-35.

Helmsing A. H. J and Kolstee T. H(eds), *Structural Adjustment , Financial Policy and*

Assistance Programmes in Africa, IT Publications.

Hugo, W.M.J. Badenhorst-Weiss J. a. and Rooyen D. C. (2002). *Purchasing and Supply.*

Management. 4th ed, Pretorial: J. L. Vanschaik Publishers.

Hunt, P. (1980). *Basic Business Finance* (Tex and Cases) (IRWIN,1972)

http://www.baraza.com

Joshi, R. N. (2000). *Cash Management Perspective Principles and Practices*, Newage, International

(P) Ltd.

Keynes, J. (1973). "The Collected Writings of John Maynard Keynes-vol.7. The general

theory employment interest and money", 14th ed, London Macmillan.

Khan, M. Y.and Jain P .J. (2007). *Financial Management*. Tax, Problems and Cases. 5th ed , Tata, MC Graw Hill Publishing Company Limited.

Kayanula, D. and Quartey. (2000). Paper on the Policy Environment for Prompting Small and

Medium-Sized Enterprise in Ghana and Malawi University of Manchester: Crawford House.

Kirkman, P .R. A. (1977). "*Modern Credit Managemen*t: A study of the management of

Trade Credit Under Inflationary Conditions" London, George Allen and Unwin Ltd,

Machiraju H. R. (2001). *Introduction to Project Finance and an Analytical Perspective*. Vikas

Publishing House P. V. T Ltd.

Marfo – Yiadom , E.(1996). *An Empirical Study of Working Capital Management Practice of Selected Firms In Ghana*, Unpublished MBA Thesis , University of Ghana.

Mawhiraju, H. R. (1999). *Project Finance*. Vikas Publishing House P. V. T Ltd

Major, R. C. (1992). *Contemporary Financial Management* 5th ed, West Publishing

company Ltd.

Mclaney, E. J. (2000). *Business Finance, Theory and Practice* 5th ed, University of Plymouth

Business School. Financial Times Pitman Publishing.

Millinuex, A. W. (1997). ''The Finding of Non-Financial Corporation (NFCs) in the EU (1971-1993) : Evidence of Convergence'', Mineo, Department of Economics, University of Birmingham.

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

Osei, B. (1993). *Impart of Structural Adjustment on small- Scale Enterprise in Ghana*, In Helmsing A. H. J. and Kolstee T. H (eds), Structural Adjustment , Financial Policy and Assistance Programmes in Africa. IT Publications.

Prased , S. C. Green and V. Murinde (2001). '*'Corporate Financial Structures in Developing Economies*. Evidence from a Comparative Analysis of Thai Malay Corporations'' . Working paper Services , Paper No. 35. Finance and Development Research Programme. University of Manchester, Manchester.

Richards, V. D. and Laughhlin E. L. ''A cash Conversion Cycle Approach to Liquidity Analysis'' *Financial Management*, (spring 1980) pp.28-32.

Sartoris, W. L, and Ned. C. Hill ''Cash and Working Capital Management'' Journal of Finance, Vol. XXXVII No. 2 May, 198.

Star, M.K. and Miller, D. W., '*'Inventory Control : Theory and Practice* '' .Englewood Cliffs N. J. Prectice Hall, (1962).

Srinivasan S. (1999). *Cash and Working Capital Management* .Vikas Publishing House P.V.T. Ltd.

Steel, W. F and Webster, L. M.(1991). Small Enterprise in Ghana. Responses to Adjustments. World Bank Industry and Energy Dept. Pre Industry Series. 1-71.

Tagoe , N. Anawa- Armah and Nyarko , E. (2008) 'SME Access To Bank Finance In An Emerging Economy: The Role Of Information Management Practices''. *International Journal Of Financial Services Management,* Vol. 3, No. 2 pp.148-170.

Thomi, W. K. P. and W. K. Yankson (1985) . ''Small Scale Industries and Decentralization in Ghana. *A Preliminary Report on Small Scale industries in small and Medium Sized towns in Ghana ''*. J. W. Geoeethe Universitat Institut fur Wirtschafts- and Social-geographic and University of Ghana, Department of Geography, Frankfurt/Accra.

Van der Wijst, N., & Thurik, R. (1993). Determinants of Small Firm Debt Ratios: *An analysis of Retail Panel Data. Small Business Economics,* (1), 55-65.

Van Horne , J. c. (2000). *Financial Management and Policy* 11th ed Prentice Hall of India Ltd

Wijst, D. (1989). '*'Financial Structure in Small Business*. Theory, Tests and Application'',

Lecture Notes in Economics and Mathematical systems, Vol. 320, New York: Springer-Verlag

Weston, I. F. and Copland, T. E.(1989). *Management Finance* 8th ed (The Dryden Press,).

Wild, T. (2002). *Best Practice in Inventory Management* 2nd ed Butterworth-Heinemann. UK.

Wood, A. (1993). Efficient Consumer Response . *Logistics Information Mangement*, 6(4), 38-40

Yankey, D. B. (1974). Financial Management Scope and Methodology. *Journal of Management Studies,* 2nd Series, Vol 7 No.2.

APPENDIX

QUESTIONNAIRE

INTRODUCTION

This is an academic research being undertaken by a Student of KNUST on the topic Working Capital Management in Small and Medium Scale Enterprise . I shall be grateful if you could respond to the understated questions. All information shall be treated as confidential**.**

SECTION A GENERAL INFORMATION

1) What is the nature of the enterprise?

   a. Sole proprietorship [ ]

   b. Partnership [ ]

   c. Co-operative [ ]

   d. Limited liability [ ]

   e. Other (please specify)...

2) Where is the enterprise located?

   a. Sekondi [ ]

   b. Takoradi [ ]

   c. Kwesimintsim [ ]

   d. Kojokrom [ ]

   e. Other (please specify)...............................

3) Age of the respondent (Years)

   Please specify..

4) Sex of the respondent

   a. Male [ ]

   b. Female [ ]

5) Marital status

   a. Married [ ]

   b. Single [ ]

   c. Divorce [ ]

d. Widow [ ]

6) What is your highest level of Education?

a. Primary [ ]

b. Middle school [ ]

c. Secondary [ ]

d. Polytechnic [ ]

e. University [ ]

f. Other (please specify)...

7) What is the current work force of you enterprise...

8) Does the business keep financial records of the operations?

a. Yes [ ]

b. No [ ]

9) If yes to question 8, what kind of records are kept?

a. Sales daybook

b. Purchases daybook

c. General Journal

d. Cash Book

10) What is the academic qualification of the personnel who keeps the records?

a. Bsc. Administration (Accounting option)

b. HND Accounting

c. Diploma in Business Studies

11) Does the owner, manager and or account personnel attend workshops or seminars aimed at improving accounting practices in the business?

a. Yes [ ]

b. No [ ]

12) If yes to question 11, how beneficial has the training been to your enterprise?

....

SECTION B: LIQUIDITY (CASH) MANAGEMENT

13) How did you finance your business initially?

a. By borrowing from Bank [ ]

b. By borrowing from friends [ ]

c. Self financing [ ]

d. Purchasing on credit [ ]

14) Do you normally get cash target in advance for your business?

a. Yes [ ]

b. No [ ]

15) How do you manage the difference in your required cash where there is shortage?

....

16) Do you write down such estimates of cash requirement as a plan or budgeted document?

a. Yes No [ ]

17) How do you control the proceeds generated on a daily basis?

a. Keep it in office cash till

b. Keep it in the bank

c. Spend the proceeds

d. Others specify...................................

18) Do you spend within your budget?

a. Yes [ ]

b. No [ ]

19) Do you normally record all cash transactions?

a. Yes [ ]

b. No [ ]

20) How often do you send money to the bank?

a. Daily [ ]

b. Weekly [ ]

c. Monthly [ ]

d. Other (please specify)..

21) How does the business invest its surplus cash?

a. In deposit account with Commercial Bank [ ]

b. In treasury security [ ]

c. In long-term deposit (bond etc) [ ]

d. In stock/shares [ ]

e. Other (please specify)...

SECTION C: ACCOUNTS RECEIVABLES

22) Do you sometimes sell on credit?

a. Yes [ ]

b. No [ ]

23) If yes to question 22, how many days or period do you give to your customers to pay their bills?

a. 7 days [ ]

b. 14 days [ ]

c. 21 days [ ]

d. Other (please specify)..

24) If no to question 22, then give reasons...

25) Do you undertake formal credit investigation before granting credit to your customers?

a. Yes [ ]

b. No [ ]

26) Are the following procedures adhered to in investigating prospective credit customer? (TICK THE APPROPRIATE ONE)

	YES	NO
a. Check customers past records from other business firms		
b. Check customers past financial dealing with the company		
c. check customers bank reference		
d. Other measures		

27) What evidence exists for a customer's indebtedness?

a. Signing of delivery note or other receipts document [ ]

b. Signing of formal IOU document [ ]

c. Other (please Specify)..

28) Do you give cash discount to your customers?

a. Yes [ ]

b. No [ ]

29) What actions are taken on customers who refuse to pay their debt?...

30) What action are taken on customers who refuse to pay their debt?...

SECTION D: MANAGEMENT OF INVENTORY

31) What are the sources of your raw materials?

a. Local [ ]

b. Foreign [ ]

c. Both [ ]

32) Do you often experience a large pile-up of raw materials?

a. Yes [ ]

b. No [ ]

33) Do you keep records of your goods or materials?

a. Yes [ ]

b. No [ ]

34) Do you do regular stock taken?

a. Yes [ ]

b. No [ ]

35) If yes in question 34, how often do you do it?

a. Daily [ ]

b. Monthly [ ]

c. Yearly [ ]

d. Other (please specify)..

36) Do you have a re-order level policy for requesting stock or materials?

a. yes [ ]

b. no [ ]

SECTION E: CURRENT LIABILITIES

37) Do you sometimes purchase goods on credit?

a. Yes [ ]

b. No [ ]

38) If yes to question 37 above, how many days or period are you given by your creditors to settle the bills?

a. 7 days [ ]

b. 14 days [ ]

c. 21 days [ ]

d. Other (please specify)...

39) If no to question 38 above, how does that affect your operation?

....

40) Do you negotiate with your creditors to extend the credit period?

a. Yes [ ]

b. No [ ]

41) Do you use short-term funds of the business for long-term investment?

a. Yes [ ]

b. No [ ]

42) Which of the following four components of working capital do you give preference?

a. Cash

b. Debtors

c. Stock

d. Creditors

43) From your own experience, would you advice business owners to place premium in any particular one or you think they are of equal importance or value?