



Working Capital Management of SMEs: Ghana's Version of the Story

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Author's contribution

The sole author designed, analyzed and interpreted and prepared the manuscript.

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Case Study

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ABSTRACT

This study is about working capital management practices by the Small and Medium Enterprises (SMEs) in Ghana. The objectives of the study include inventory management practices, cash management practices and trade receivables management practices by the SMEs. The study involves both primary and secondary data. The primary data was collected from fifty (50) owners and operators of SMEs in Ghana. The respondents were selected using convenience sampling to answer the questionnaire. The secondary sources were the information gathered from books and previous studies and other valuable materials relevant to the study. Microsoft excel was used for the computation and subsequent analysis of the data collected from the respondents. Cash management-the study revealed that these SMEs do not manage the various elements of their working capital properly. It was found that operators of SMEs do not apply efficient inventory management, cash management and trade receivable management. The study recommended that the SMEs should redesign efficient inventory management system; appropriate cash management and trade receivable order to effectively and efficiently manage working capital.

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1. INTRODUCTION

In a developing economy like Ghana, the share of business activity represented by the SME sector has increased considerably over the last decade of the 20th century. The dynamic role of SMEs as engines through which the growth of objectives of developing countries can be achieved has long been recognized. The contribution of the SMEs to the encouragement of entrepreneurship, the achievement of economic objectives including poverty alleviation, the process of regional decentralization, and the employment is highly recognized. However, the contribution of these SMEs to the national revenue budget through direct taxes is negligible. It is expected that these SMEs contribute significantly to the national revenue and the inability of some of them to manage their working capital efficiently is very worrying.

Because there is the need for all firms in the country either big or small, to pay appropriate taxes to the government, and the fact that some of the SMEs do not manage their working capital efficiently which had adversely affected the viability of their businesses, there is the need to conduct a study to investigate, and identify the factors that influence working capital management practices by SMEs in Ghana.

In a study by Dodge et al. [1] a number of SMEs lost their investment due to inefficiencies in trade receivable management, inventory management and cash management. These according to Dodge et al. [1] McAlister Holdings lost \$800,000 of their investment in the US due to inefficiencies in working capital management. In South Africa, inefficiencies in working capital management led to collapse of hundreds of SMEs [2]. From the above issues SMEs generally have problems with working capital management which causes most of them to collapse.

Information from the Registry General shows that most of the SME's in Ghana, hence the number of people employed and capital requirement and are therefore likely to have working capital management problems. The questions that arise from the seemingly difficulty of SMEs to manage their working capital include: what the inventory management practices? What are the trade receivables practices? and how do SME's ensure efficient cash management systems?

2. LITERATURE REVIEW

2.1 Definition of SMEs

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 [3]. 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. [4] 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 10 and 29 employees.

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 9 employees as SMEs [5].

The United Nations Industrial Developmental Organisation (UNIDO) also uses number of employees to define SMEs by giving different classifications for industrialized and developing countries (Elaiyan, 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.

2.2 Concept of Working Capital Management

Working capital management has lately become a better known concept as more and more managers are starting to realize the benefits that a well-managed working capital can bring. In literature, authors generally refer to the concept of working capital as, working capital or net working capital. These two expressions are

sometimes distinguished but in this paper we will describe them with the same definition. We believe an assimilation of the two expressions is acceptable as the expressions are so closely related with each other in their meaning. Arnold defines working capital as, "the difference between current assets and current liabilities" [6]. After reviewing different sources about working capital, it has become clear that the definitions taken from Arnold is a very general definition that is frequent used to define both working capital and net working capital. Continuing with the concept of working capital management, Jeng-Ren, et al., describes this as "companies' management of their short-term capital" [7]. The short-term capital is here referred to as the current assets and current liabilities.

The short-term capital refers to the capital that companies use in their daily operations and it consists of companies' current assets and current liabilities. A well-managed working capital promotes a company's well-being on the market in terms of liquidity and it also acts in favor for the growth of shareholders value [7]. Current assets consist of capital tied up in cash, short-term financial investments, inventories, account receivables and other current assets [8]. Current assets can be defined as assets used in companies' daily operations with the expectation to provide companies cash in return within a period no longer than approximately a year. The short-term investments can be seen as a safety net for companies due to the fast cash conversion ability [9].

2.3 Components of Working Capital

Working capital is the amount of cash required for day to day operations. Accountants call it net current assets. Working capital figure is determined by subtracting current liability from current asset. The most important current assets are stocks, debtors and cash and current liabilities are creditors and accrued expenses [10]. The reason of it being called current is because they are expected to turn into cash within a year. To be more specific it can be inferred as a cycle where raw materials are converted to finished goods to be sold. The main working capital routines as described by Howorth and Westhead [11] are stock turnover, stock levels, stock reorder levels, customer credit periods, customer discount policy, bad debts, doubtful debts, customer credit risk, payment period to creditors, finance of working capital and use of cash budgeting [12]. The most important elements to determine working capital are

current assets, current liability and levels of inventory. All the rest of components fall under those determinants.

"Working capital is defined as the circulating capital of the company, because it includes all those items appearing on the company's balance sheet which are constantly being changed by the production and sale of goods. On the balance sheet these are described as Current assets and Current Liabilities" (Thomas, 1972).

2.4 Measurement of Working Capital Management

As mentioned in the chapter 1 introduction, there are three different concepts that are all affected by the choices that companies make regarding their working capital policies.

The three concepts are solvency, liquidity and financial flexibility and as a continuation on the presentation of the various concepts in the introduction, a presentation of the pros and cons of the concepts various measures will here be presented [3].

Two typical solvency measures are the current ratio and the net working capital which both measure the relation between the current assets and the current liabilities to assess the company ability to pay their short-term debts. The net working capital, here defined as "the difference between current assets and current liabilities", is an absolute measure that demonstrates how well companies can manage their short-term commitments.

Because this is an absolute measure, it becomes inappropriate to use in a comparison between companies in different sizes which is a disadvantage with this measure. Maness and Zietlow also bring up Shulman and Cox discussion about the weaknesses with net working capital that it is an unbeneficial measure as the current assets and current liabilities are mixed with both financial and operational strategies. Shulman and Cox believe this mix of financial and operational strategies cause this measure to give an unfair picture of a company's liquidity. In order to adjust this they separated the operational and financial strategies into two new measures that replaced current assets and liabilities. This way, the measure would give a more righteous value [13].

Common liquidity measures are; cash flow from operations, cash conversion efficiency and the

cash conversion cycle. The first measure, taken from companies' cash flow statement is calculated by taking the net profit plus depreciation, long-term deferrals, and amortization. This is somewhat a more useful measure when making comparison over several years, rather than over just one year. This is because a one-year result could be misleading due to possible fluctuations on the market or situations out of the ordinary that affect the measure Samiloglu & Demirgunes [14]. For example, fluctuations on the market and newly started up companies are conditions that can contribute to a negative cash flow from operations for one or two years but due to these kind of conditions, a negative cash flow would in this case not be an alarming sign as it could be expected to recover within an acceptable near future. The second measure, the cash conversion efficiency, is gained by dividing cash flow from operations with sales. This measure is beneficial for companies as it reveals how efficiently they manage their business in terms of liquidity and profits. The measure tends to follow the company's profit levels and gives a percentage that indicates how fast companies manage to transform their sales into cash.

A high percentage indicate an efficient managed working capital equally a short cash flow cycle, which is desirable. Continuing with the cash conversion cycle, this is a measure that provides the number of days it takes in average for capital, tied up in working capital, to convert into cash in the cycle [13].

One of the benefits with this measure is that it in difference to the first measure, the cash flow from operations, takes the time aspect in account. This is an advantage that will provide managers a more complete and useful liquidity measure as they get information of how efficiency their short-term capital is managed (Richards & Laughlin, 1972). The cash conversion cycle includes the average number of day's inventory, the average number of day's accounts receivable and the average number of day's accounts payable and a short cash conversion cycle is desirable as it indicates an effective working capital management. The drawback with this measure is that it neglects the handling with in and out payments that most company has and which might add some days in the cycle.

For a more accurate measure, the number of days should be withdrawn as it has nothing to do with the management of working capital. Despite

this minor flaw the cash conversion cycle is known to be a very common used measure that is appreciated to contribute with good guidance for companies' liquidity management [13].

The third and last concept is the financial flexibility which reveals how realistic companies' financial policies are compared with their actual ability to grow. The measurement to determine a company's growth is called the sustainable growth rate and is simplified an equation of the return on shareholders' equity and the companies' net profit. The sustainable growth rate determines a company's ability to grow and make investments without getting into liquidity problems. A high growth rate indicates that a company has enough profits to both manage its obligations as well as making new investments, a more preferable state than a low sustainable growth rate which indicates that a company has too little incoming cash flow to cover its obligations [15]. The downside with this measure is that it does not consider the demand on the market which is a vital aspect for a company growth. A company could have a high sustainable growth rate but if the company is missing a market to expand in the sustainable growth rate is worthless as a measure. The strength with the sustainable growth rate measure is that it points out the relationship between profits and growth, how they reflect each other [13].

2.5 Efficient Working Capital Management

2.5.1 The cash conversion cycle

By applying the cash conversion cycle, managers can keep track of how effective their working capital is managed in their operating cycle. The cash conversion cycle starts from the time companies purchase resources and proceed until cash is received from products sold [16]. By calculating the average time it takes for capital to travel between the start and finishing point of the cash conversion cycle managers can estimate the approximate time it takes to release capital that is tied up in the short-term assets [17]. If cash is tied up in different activities for too long the company has a non-effective cash flow in the cycle and this cost money [18].

In general, most companies benefit from having a short cash conversion cycle since that will generate more value in the long run. The benefits, that a reduced or even zeroed net working capital can provide, are better liquidity

due to a more effective operating cycle and increased earnings due to the faster routines and therefore less tied up capital [19]. More and more companies are taking into account the significance of a well-managed working capital and the benefits that it brings and this awareness have increased the trend for a net working capital close to zero [13].

The challenge with the cash conversion cycle is to arrange a suitable capital flow between the four working capital accounts so that not all commitments coincide and causes financial suffering for the company. An undesirable situation would be if a large payment has a maturity date before the company received enough receivables that could cover the payment. This could be the case if customers are late with paying or it could be a result of bad planning from the company's side. The company would be forced to wait with the payment and risk having to pay unnecessary costs as fees because of the delay (Larsson, 2005).

The objective for managers who work with working capital is as mentioned, to find a good balance between the current assets and liabilities, a balance that is in favor for their particular company and that will provide this company the most value [13]. A well-adapted balance will promote both a company's profitability and liquidity which is a desirable outcome for most companies. Implementing a management that will promote both profitability and liquidity is difficult as a good liquidity in general does not favor the growth of profits and vice versa. Having a high liquidity means that lots of capital is tied up in short-term assets which can be reassuring in terms of being able to pay debts and other obligations in time but this is also capital that could be used for investments to increase profitability. A company's managers all have different interests to meet, for example, production managers would like to stock more inventory to avoid disruptions due to lack of materials, an approach that goes against the working capital managers goal for a more efficient managed working capital. The challenge for companies and their working capital managers is to get a company's all department managers to strive after the same goals and see the bigger picture [20].

By avoiding unnecessary interruptions and costs in order to pursue an effective working capital management, the matter of timing is of great importance. In theory, the optimal state would be

if the companies are paying their account payables at maturity, receive payments from the customers as quickly as possible and keep the level of the inventory to a minimum [21]. This way the companies will benefit most value. This approach do has its obstacles and downsides, for example; a company that would be able to achieve the optimal timing as mentioned would most probably no longer be able to benefit from the quantity discounts and there is an increased risk that they would run out of money to pay their own payables with if customers are late with payments. It is a balance and challenge between risk and trying to make the operation processes more effective to the extent that it is not harmful for the company [13].

2.5.2 Inventory management

The composition of an inventory differs depending on what kind of production or business companies are involved in. The five different assets an inventory can consist of are; raw materials, work in progress materials, finished goods, extra material and consumption materials. Most companies have an inventory that they more or less depend on in their operation. The manufacturing companies can hold an inventory that consist of all five different materials and for them keeping an inventory is essential for their production. For most companies the inventory can be seen as an unavoidable cost [22].

The management of inventory is one of the more challenging tasks for working capital managers who, if they could decide, would like to minimize the inventory as much as possible in order to shorten the cash conversion cycle and reduce costs. The risk of minimizing an inventory down to a level close to zero is that it increases the possibility of running out of materials needed in the production or running short of finished goods during a high demand. Such situation would be costly for any company due to the revenues they would lose [13].

As mentioned earlier, one of the challenges for a working capital manager is to have all the companies' managers to agree about how to manage the inventory. Each manager has their own interests they first and foremost would like to satisfy which complicate the task to reach a joint decision. Each company should find the balance that they will benefit most from [23].

The just-in-time approach is a strategy for effective inventory management and help

keeping inventory levels on a lower level. The strategy aims to make the orders of material, produce and deliver just in time when it is required and not before [8].

2.5.3 Accounts receivable management

Companies depend more or less on their account receivables to finance some if not all of their payables and they should therefore attempt to reduce their credit time to customers as much as possible. The credit time runs from the invoice date until the due date of the invoice [18]. The reason for shortening the credit period is due to the fact that longer credit time to customers includes the unfavorable effect that it keeps companies from benefiting from the capital inflow that they are expecting from sales. By allowing customers to keep the money during a credit time companies are exposing themselves to a higher risk of ending up in an unstable financial situation. This is where the importance of timing comes in and where it becomes apparent which companies manage their working capital efficient and which companies do not [24].

2.5.4 Accounts payable management

The general guidelines for optimizing the managing of account payables involve the timing of payments. Companies should try prolonging the time of payment as long as possible as they can use the advantage of their suppliers financing their investments until payment has been made. Another argument for prolonging the time for payment is that the producing companies, for example, need some time to convert their purchased raw material into products they can get sold and get cash in return [13].

Some suppliers offer their customers discount rates as an attempt to get them to pay their receivables before maturity date which may sound tempting but this is not always the most profitable option. To avoid being misled by these discounts offers, companies should carefully consider every discount offer they get to see that it is beneficial in terms of their conditions. For a discount to be beneficial for the buyer the discount rate should be higher than the interest rate the company would have to pay for a loan over the same period as the discount period [13]. If there is no discount offer given companies should use the whole credit period and pay their payables on due date. Paying after due date should always be avoided unless the company has fallen in financial difficulties and

there is no other choice. The reason for this is that delayed payments can result in unnecessary costs as late fees [10].

3. METHODOLOGY

The study is designed to use both primary and secondary data. The primary data was gathered through a structured questionnaire. The primary data forms the core information needed to achieve the research objectives. The secondary data used in the study included existing material such as publications in journals, relevant literature on the topic, books and internet materials. The secondary data is also important to the researchers because it helps to identify concepts, perspectives, models which relate to working capital management practices by SMEs. A convenience sampling technique was used to select the fifty (50) SME's in Ghana. Convenience sampling technique was used because of the nature of the topic and the scattered nature of the targeted population for the study [25].

The research used structured questionnaires and semi-structured interviews in collecting data. This will lead to higher responses and more accurate data. The questions were designed in line with the objectives of the study. This instrument gave expected information about the operations of working capital management practices of SME's. The data was organized into tables and figures based on the questionnaire given to respondents. The results were then analyzed and converted into percentages and presented them in charts and tables. The result was subsequently computed into percentages. Microsoft excel was used for the computation and subsequent analysis of the data collected from the respondents.

4. RESULTS AND DISCUSSION

4.1 Demographic Characteristics of Respondents

The demographic characteristics of respondents include age, gender, and educational background. These questions were analyzed because the researchers believed they have significance impact on the business operations of the respondents.

The age of respondents was item one on the questionnaire. The respondents indicated their age in a range in the questionnaire which shows

different age levels. The respondents who are less than 30 years recorded 5 representing 10% of the total respondents. 31-40 years recorded 12(24%), 41-50 were 17(34%), 51-60 years were 13(26%), while respondents who are 61 years and above recorded 3 showing 6%. This means that various age groups in the SME's were represented in the research. The respondents were asked to indicate their gender group.

The research recorded 42 which represent 84% of the total respondents of the total respondents. Female participants were 9 which indicated 16% of the respondent. This means that both sexes are represented in the study, male participants however dominated.

The researcher believed that a persons' level of education means a lot in determining his/her understand and appreciation of issues which eventually affect the perception, behavior attitude. The respondents were therefore asked to indicate the level of educational. The respondents who do not have formal education recorded 5 representing 10% of the total respondents. Respondents who have JHS/MSLC recorded 9(18%). SHS 14(28%) and Vocational/Technical holders recorded 13(26%) of the total sample size. This means that majority of the respondents have formal education. This means that majority of the respondents have formal education. This may however be different from their understanding and appreciation of working capital management.

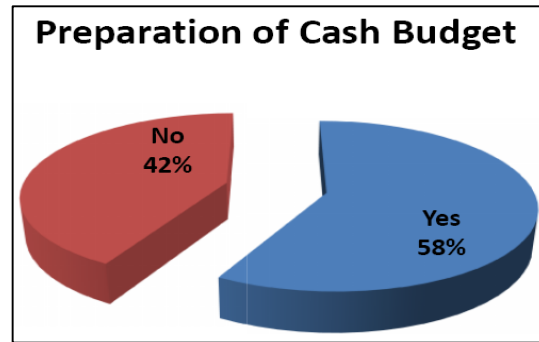
4.2 Cash Management Practice

On cash management practices, the following findings are drawn from the investigation and discussion practices of SME's in Ghana.

4.2.1 Preparation of budget

It can be noted from the figure above that about 29 (58%) of the SMEs owners interviewed always prepare cash budgets. Considering the importance of efficient management of cash by SMEs, it is not surprising that only 21 (42%) of respondents claimed that they never prepare cash budgets. This finding is similar to a survey conducted by 'Chittenden et al [26] which indicated that 63% of those reporting firms prepared cash budgets. In a follow up question respondents were asked to indicate the bases for preparing their cash budgets. 35(70%) of the respondents mentioned that they determine cash

balance based on the owner/manager's own experience. 15 (30%) of the respondents however stated that cash balance is prepared based on the administrators own knowledge and information. In addition, only 22% of responding firms deposit cash daily, 56% weekly, 12% bi-weekly and 10% do not deposit their cash at all.



Source: Field survey, 2015

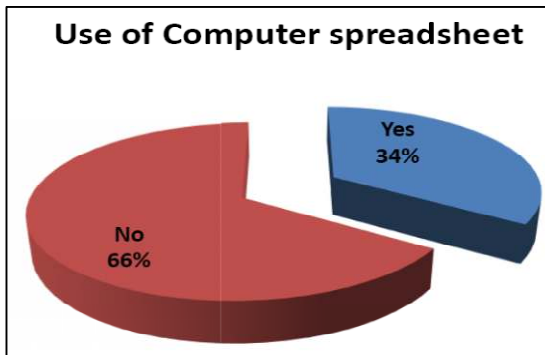
4.2.2 Surplus cash

On how respondents handle surplus cash, 26 (52%) indicated that they do not know how to use the temporary cash surplus for profitable purposes. They rather invest their surplus cash elsewhere. This finding reveals that cash surplus rather than cash shortage is a problem for these SMEs. 24(48%) of the respondents indicated that they know temporary cash surplus but are not aware of its purpose. That SMEs have to keep much more cash balance is recognized as essential under conditions of business environment uncertainty. However, this affects SME's profitability and a trade- off between liquidity and profitability needs to be considered carefully. This is a sign of inefficient cash management practices which confirms Dodge et al. [1] assertion that flow management is an internal problem of SMEs which needed to be identified.

4.2.3 Use of computers

The current study revealed that a relatively high percentage of 33 (66%) of the respondents do not use computers in their operations. This has affected the ability of the businesses to keep track records of their accounting information and backups. The availability of affordable computers and suitable software has played an important role in promoting the practices of efficient working capital management in some firms. The 17(44%) of the respondents, however indicated that they use computer in handling their cash operations.

In a survey of 129 small manufacturing firms in Quebec, Canada, Raymond and Thalmann (1982) discovered a predominance of accounting-related applications among computer software in use, particularly in the areas of accounting receivables, accounting payables, sales analysis and inventory. Steel et al. [27] also identified the use of computerized accounting system as major factor in promoting efficient working capital management.



Source: Field survey, 2015

4.2.4 Quality of accounts officers

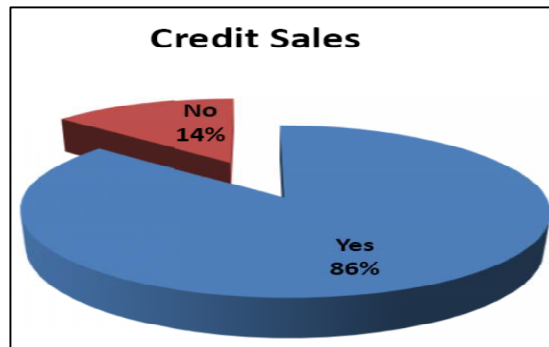
Out of the fifty (50) SMEs, twenty-nine (29) representing (58%) of the total respondents have account officers and the other twenty one (21) (42%) do not have accounts officers. In most cases owners manage the accounting functions themselves which is a flaw in an effective working capital management. Their lack of requisite skills in accounting practice and various standards affect their ability to generate financial information for decision making in the business. According to Atrill [28], this practice affects organizational efficiency and profitability. This also makes it difficult for them to assess loan from banks and financial institutions.

Most of these SMEs assume they are saving money by employing 'cheap labour' that is unqualified personnel to carry out accounting functions. Some of the managers explained that they consult professional accountants when they want to present financial statements and cash flow to their bankers to support their loan applications. This finding collaborates with what Mensah [29] reported in his paper on 'Financing SMEs in Ghana that owners/managers of SMEs in Ghana perceived management and support services to be cost-prohibitive and non-value adding.

4.3 Trade Receivable Management Practices

4.3.1 Credit sales

Regarding receivable management, 43 of the respondents, representing 86% always sell their products on credit. Most of the firms incur bad debts which they are unable to recover. However the owners/managers interviewed could not give the amount of bad debts on their total sales. Bad debts can be a major problem to sachet water producers, especially in the current economic climate where margins may already be squeezed and the high inflation rates may create more operational problems. Firms that provide most or all products or services on credit to more or all of their customers are likely to experience bad debts situation on a large scale. This finding shows that selling products on credit is a common trend among SMEs in Ghana. Again, the study found out that most of the SMEs review their levels of receivables and bad debts on their own discretion and it is not surprising that most of the reporting firms always experience bad debts.



Source: Field survey, 2015

4.3.2 Debt collection period

Findings on debt collection period reviewed that most of them takes long time to collect their debts from customers. Considering findings on trade payable periods, 27 (54%) of the firms buy input for SMEs on credit. Reconciling the two means more cash is needed to finance the operation of the business thereby resulting in the businesses having long cash conversion period. 23(46%) however indicated that they buy most of their input with ready cash. This means that they buy on cash and sell most of their produce on credit. The implication is that it will affect liquidity for efficient business operation.



Source: Field Survey, 2015

4.3.3 Credit control

15 (30%) of the respondents have policies to collect their debt. However from interviews with owners credit policies are most often set against the selling agent salaries. 35(70%) of respondent firms have no policies on debts collection. This is as a result of the numerous numbers of SMEs in Ghana. With regards to employment of credit officer, only few of the reporting firms interviewed have a credit officer which means there is no clear cut procedure on how debts are collected. This finding is similar to Grablowsky's (1976) survey on accounts receivable management practices of SMEs which indicated that only 20% of overall firms employed a full-time credit officer. The owners/manager tended to neglect accounts receivables management because of its difficulty and because they found it distasteful. This finding also collaborates with Atrill's [28] assertion that SMEs lack the resources to manage their receivables effectively. He further argued that it is unusual for SME to operate without credit control department. These practices of the sachet water producers in Kumasi tend to confirm that both expertise and the information required to make sound operational decisions concerning term of sales are not available. Hence the SMEs lack proper debt collection procedures such as prompt invoicing and sending out regular statements. This might cause the increase risk of late payment and defaulting debtors.

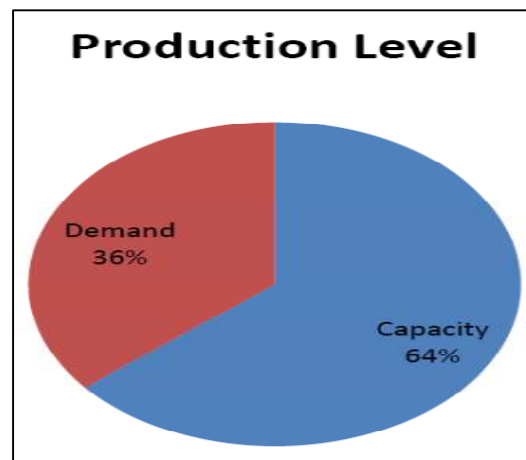
4.4 Inventory Management Practices

On inventory management practices, SMEs in Ghana still have little knowledge of management theories. Despite this, they always review inventory levels and prepare inventory budgets,

but the ability of applying theories of inventory management in inventory budget is very limited.

4.4.1 Production level

Concerning production levels 32(64%) of the SMEs produce according to the capacity of their machine whereas 18(36%) of them produce according to demand which is normally determine by the owners experience and not on any theory. Most of them have adequate storage facilities which in essence increase cost associated with holding too much inventory. This also leads to spoilage in most of the responding firms inventories. 12 (24%) of the responding firms however have adequate storage facilities to prevent heavy spoilage of inventories.



Source: Field survey, 2015

4.4.2 Inventory level determination

30 (60%) of the firms had no policy to determine inventory levels. Most of them did not know anything about economic order quantity (EOQ)

model when asked. 20(40%) of the firms have knowledge about (EOQ) but are not using it for their inventory level determination. This makes it difficult for the firms to know their re-order levels and quantities which may leads to shortages in inventory or keep inventory more than needed. Like cash management, the owner/manager's experience was again found to be more important than application of required standards of inventory management.

This study revealed that the SMEs in Ghana relied on manual methods of inventory control. This is similar to the survey conducted by Chittenden et al. [26] on SMEs in UK where more than one-third of respondents SMEs relied on manual methods of inventory control and the majority did not use inventory optimization techniques.

4.4.3 Inventory management methods

The nature of problems and challenges SME face in working capital management may be influenced by the inventory methods applied by the firms. In the SMEs, the ability by firms to succeed and penetrate the marketing may depend on how they manage inventory. The Table below presents respondents view on the various methods of inventory management.

Inventory methods	Frequency	Percentage (%)
ABC classification	21	42
Reorder point	5	10
Safety stock	5	10
Don't know	19	38
Total	50	100

Source: field survey 2015

Respondents were asked to indicated the methods used in inventory management of the production and operations of the SMEs. Respondents were presented ABC classification; reorder point and safety stock as option for choices. 21(42%) indicated that they apply ABC classification, 5(10%) mentioned reorder point as their inventory management strategy, 5 (10%) stated that they use safety stock as their inventory management methods, whilst 19 (38%) recorded that they do not following any particular inventory management method.

5. CONCLUSION

The study sought to investigate working capital management practices by SMEs in Ghana. In the objectives set for the study included; inventory

management, cash management, trade receivables management. Cash management- the study revealed that these SMEs do not manage the various elements of their working capital properly. Majority of the SMEs do not prepare cash budgets. Cash balance is based on the owners or manager's experience without recourse to acceptable standards, they use temporary cash surplus for profit purposes and some of the producers do not even have accounts. It can therefore be generalized that there is weak cash management among the SMEs in Ghana.

Inventory management- They relied on manual methods of inventory and majority does not know anything about economic order quantity model (EOQ). Owners/managers experience was found to be more important than application of theories of both inventory and cash balances in majority of the SMEs. Some of the companies do not know any inventory methods. Thus most of the firms produce according to the level of demand and other produce on their capacity. The study clearly revealed that the SMEs in Ghana do not have efficient inventory management practices.

Trade receivable management- The SMEs lack resources to manage their receivables, no proper debt collection and no credit officers were employed. Majority of the producers sell on credit and also buy most of their input for sachet water production on credit. Some of the producers do not have credit control and debt collection policies. There is therefore clear indication that the SMEs in Ghana have weak trade receivables management practices. In view of these it is concluded that SMEs in Ghana do not manage their working capital properly which may influence the growth and survival of many of the SMEs. Therefore, in order to improve on the working capital management practices of SMEs in Ghana, the following recommendations are made: Owners/Managers of SMEs should establish a credit control department with a full-time credit officer and follow credit control policy procedures; owners/managers are to employ more qualify accounting staff to manage their accounting functions for them; Owners/managers of SMEs must adopt a more economic theory of inventory management like the economic order model to determine the level of inventory to maintain.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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