INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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HYPOTHESIS (ES)

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RESULTS & DISCUSSION

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WORKING CAPITAL MANAGEMENT AS A FINANCIAL STRATEGY TO IMPROVE PROFITABILITY AND GROWTH OF MICRO AND SMALL-SCALE ENTERPRISES (MSEs) OPERATING IN THE CENTRAL REGION OF GHANA

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ABSTRACT

Working capital management has now taken centre stage in defining businesses' financial prospects. Hitherto, working capital management hardly was given the prominence it required in the formulation of firm's financial policy. In recent times, however, working capital management has caught the attention of most well-meaning business entities that have profitability, business growth and maximization of owners' wealth as their top priorities. It is in line with this prospective that businesses formulate well-tested working capital policies aimed at institutionalizing short-term financial management practices to deal decisively with liquidity challenges of their businesses with Micro and Small-scale Enterprises (MSEs) as no exemption. This paper presents a survey results on working capital management practices by 214 Micro and Small-scale businesses operating in eight (8) major towns in the Central Region of Ghana, where business activities are thriving. The study divulged that majority of the respondents (78%) have failed to put in place working capital management practices. This situation was identified as a major reason why MSEs usually fall into the trap of unending liquidity challenges that culminate the demise of most of them, especially in their early years of existence. The paper therefore, recommended that MSEs require urgent momentum to put in place short-term financial management practices in order to propel improvement in profitability, liquidity management and growth of these businesses. Also, there is the need for MSEs to formulate and implement well-tested working capital management policy that will serve as guidepost to transform their short-term financial goals.

KEYWORDS

working capital management, liquidity, overtrading, current assets, current liabilities, working capital cycle.

1.0 INTRODUCTION

The current business milieu requires not only prudent financial management skills and competitive analysis of the firm's external environment to thrive, but also committed financial discipline in respect of short-term financial requirements, (working capital requirements) should be given adequate prominence. Marfo-Yiadom and Agyei (2012) indicate that working capital management directly affects firms' long-term growth and survival. Brigham and Houston (1999) also state that in today's world of business as characterized by intense global competition, working capital management is gaining increasing attention from managers who are striving to peak financial efficiency. Working capital management plays a pivotal role in achieving both financial and strategic goals of businesses. Working capital is the process of planning, controlling the level and mix of current assets of the firm as well as financing of these assets. (Amalesh, 2015). By this definition, working capital management comprises the management of the components of current assets and current liabilities that a firm employ in its business processes. Current assets components include; cash and cash equivalents, debtors and stocks, whereas current liabilities is made up of trade creditors, short-term loans and other short-term credits that are required in the day-to-day running of the firm. Accordingly, Khan and Jain (2007) attest that working capital management is to manage the firm's current assets and current liabilities such that a satisfactory level of working capital components is maintained facilitate continuous business flow.

Working capital management involves decisions relating to investment in short-term assets and the short-term financing required. It therefore, refers to the set of procedures that are employed to ensure the management of current assets and current liabilities in order to ensure smooth business processes uniformly, throughout the business cycle. Working capital management according to Owolabi and Alayemi (2012) is primarily concerned with the problems that arise in attempting to manage the current assets, current liabilities and the relationship that exist between them. Van Horne (1998) also asserts that working capital management involves the administration of current assets and the financing required to support current assets. Ross et al (2004) also, that working capital management refers to short-term financial management that primarily, is concerned with the analysis of decisions that affect current assets and current liabilities.

Undoubtedly, the essence of working capital management is to ensure effective short-term financial management practices that facilitate smooth liquidity transformation aimed at promoting smooth day-to-day business operations that translates into profitability and growth.

1.1 STATEMENT OF THE PROBLEM

Micro and Small-scale businesses are formed and operated with the main goal of achieving financial objectives that are aimed at ensuring business growth, survival and wealth creation. Profitability of the firm is an effective measure to ascertain the ability of operators and managers of MSEs to use the limited available resources available judiciously to transform the earning capacity of their entities both in the short-term and the long-term.

Working capital comprise of the day-to-day activities of managing the firm's current assets and current liabilities since working capital choices are critical determinants of a firm's ability to pay its liabilities as and when they fall due (Titman et. al., 2011). Currently, businesses irrespective of the sizes face a daunting task of dealing with liquidity challenges resulting from non-existence or non-compliance with working capital management practices. Liquidity, it must be emphasized, is an effective measure of ensuring sufficient cash availability to cater for current expenses and up-coming liabilities. Hitherto, working capital management had not been given the necessary attention and prominence, thus, most businesses, especially MSEs, exposing them to unending liquidity crisis that militate against their profitability and growth. It is interesting to note that a business's survival and growth and primarily, depends largely on sound short-term liquidity management (working capital management).

Given the above viewpoint, this paper tries to ascertain how working capital management can be used as a financial strategy to improve profitability and sustain the growth of Micro and Small-scale businesses, especially those operating in the major business centers in the Central Region of Ghana.

1.2 OBJECTIVES OF THE STUDY

The main objective of the study is to ascertain the extent to which working capital management can be used as a financial strategy to improve profitability and growth of MSEs. Other sub-objectives include the following:

- To find out whether MSEs formulate working capital policy and also the extent of its compliance;
- To identify (if any) the types of working capital management that are adopted by the MSEs;
- To ascertain whether working capital components are managed satisfactorily by MSEs;
- To assess how working capital management can impact the profitability and the liquidity levels of MSEs; and
- To ascertain ways to improve working capital management practices by MSEs to enhance their growth potentials.

2.0 THEORETICAL AND CONCEPTUAL FRAMEWORK

2.1 GOALS OF WORKING CAPITAL

Working capital management like any business concept has certain goals to achieve. In fact the extent to which MSEs are able to maintain ideal working capital balance to deal decisively deal with their liquidity challenges such that they continue to operate uniformly throughout their business cycle, measures the ability of such MSEs to achieve their working capital goals. The main goals of working capital management include:

- To achieve an ideal level of cash to avoid shortage of cash;
- To establish an apt level of debtors to prevent huge debtor balance;
- To establish an ideal level of stock to avoid stock out; and
- To identify the optimum level of short-term (current) liabilities.

2.2 CONSERVATIVE AND AGGRESSIVE WORKING CAPITAL MANAGEMENT

Working capital management can either be classified as an aggressive and conservation depending upon the relationship that exist between the level of total current assets and total current liabilities.

Conservative working capital management, which is regarded as excessive current assets investment, refers to where a firm's current assets are far in excess of (more than twice the size) its current liabilities thereby indicating excess cash and cash equivalents levels at the disposal of such a firm. Hence, such businesses adopt conservative or relaxed short-term financial planning where surplus financial resources can be channeled into short-term interest-bearing marketable securities. Brigham and Houston (1999) hint that relaxed current assets investment policy requires relatively large amounts of cash, cash equivalents and other current assets components such that sales levels are stimulated by liberal credit policy that usually results into high levels of debtors.

Alternatively, aggressive working capital is where a business is faced with liquidity problems such that the level of cash and cash equivalents are woefully inadequate to support its volume of business, hence, the need to continuously rely on trade credits and short-term borrowing such as overdraft facility. Under aggressive working capital operators or managers of the firm are characterized by persistent borrowing leading to overtrading.

As indicated by McMenamin (1999), where the working capital of a firm is conservative in nature, there is a greater level of investment in current assets and conversely, the aggressive working capital also is characterized by lower investment in current assets.

2.3 WORKING CAPITAL POLICY

In order to ensure effective working capital management practices, firms usually put in place working capital policy that streamlines the management of the various working capital components. Accordingly, Brigham and Houston (1999) define working capital policy as a firm's policies regarding target levels for each category of current assets and how current assets will be financed. Marfo-Yiadom (2009), also explains that current assets policy measures the relationship that exists between a firm's current assets and sales volume. It must be emphasized that working capital policy determines the direction of the business in terms of current assets investment and short-term financing that is required to ensure continuous business processes. The policy may be tilted towards adopting an aggressive or a conservative working capital management.

2.4 RELATIONSHIP BETWEEN WORKING CAPITAL MANAGEMENT, PROFITABILITY AND LIQUIDITY

Profitability is the ultimate goal of businesses that are keen to survive, grow and achieve maximization of owners' wealth as its financial objectives. Profitability measures the extent to which a firm is able to cover its total cost and have extra money as a margin. It is worth noting that the extent to which MSEs are able to manage their working, has direct effect on profitability and liquidity. The need to manage the various components of working capital is crucial to enhance the profitability and liquidity.

Working capital management policy has the main objective of establishing the apt levels of cash and cash equivalent levels such that sufficient cash is maintained and excess cash are invested in short-term marketable securities to earn extra income to boost profitability. Again, maintaining optimum level of debtors ensures that excessive tied up of cash in trade debtors, which warrants bad debt write-offs that reduces the profit level of the firm and also limits the ability of the firm have access to ready cash to improve its liquidity position. It must be pointed out that MSEs mostly experience improvement in sales by allowing their customers to buy on credit from them, but this does not necessarily improve its liquidity since such sales increase is mainly tied up in debtors. In the nutshell, the effective management of working capital does not only transform the liquidity position of MSEs, but also enhances their profitability and business growth.

2.5 CASH MANAGEMENT

Cash management constitutes an integral part of working capital management. Cash according to Khan and Jain (2007) is aptly described as the oil to lubricate the over-turning wheels of business; and that without it the whole business process will grind to a halt. Cash management has the main goal of making sure that payment schedules are met reasonably, with sufficient cash to meet the cash disbursement needs of the firm. The essence of cash management it is to control cash and cash equivalents, such that enough cash is kept to meet short-term needs and upcoming liabilities that are to be borne by the firm. Cash management according to Brealey and Myers (2003) is aimed at managing cash receipts by way of speeding up cash collections; controlling disbursements and also investing excess cash into short-term marketable securities to improve the liquidity.

Optimum cash level is a must for every business since it defines a firm's liquidity position required to guarantee survival and growth. It is worth noting that the soundness of cash management practices put in place by firms guarantees strong liquidity level that ensures for business survival. As established by Marfo-Yiadom (2009), cash management has the main objective of creating wealth for the firm through optimum investment decisions that are financed by relying on the firm's own excess cash resources, rather than financing its investment by borrowing. Cash is essentially required to finance working capital requirements uniformly throughout the business cycle of the firm. Cash management also involves putting measures in place through: Cash flow management; cash budgeting, and by adopting the right cash management model to ensure that excess cash are channeled into short-term interest-bearing securities to transform the liquidity position of the firm.

2.6 DEBTORS' MANAGEMENT

Working capital management also requires prudent management of debtors (accounts receivables). Debtors' management primarily involves managing credit sales such that debtors pay their debt as and when they fall due to avoid piling up debtors. To ensure effective receivables management, Brigham et.al (1999) hinted that there is the need to put a monitoring system to ensure that receivables (debtors) do not build up excessively, in order to avoid cash flow decline. Even though, it is generally known that credit sales is a critical strategy to stimulate sales, it must be pointed out that care must be taken to manage it cautiously, since its primary motive may be defeated due to the unending liquidity challenges it may present. In this wise, it is essential streamline the level of credit sales in order to avoid liquidity trap caused by non-payment thereby denying the firm the ability to have access to ready cash to meet its upcoming financial commitments. This situation can equally cause astronomical increase in bad debts arising from non-payment of overdue debt owed by recalcitrant debtors. Hence, the need to balance the benefits and costs of selling on credit through proper debtor management that borders on well resourced and committed credit control department coupled with strict credit control procedures such age analysis of debtors.

2.7 STOCK MANAGEMENT

Firms require sound investment in stocks (raw materials, work-in-progress and finished goods) in order to remain competitive. Stock management is aimed at ensuring optimum stock level in order to avoid over stocking and stock out cost. Stock Management also enables to avoid excessive stock that leads to huge holding cost and huge stock write-downs due to obsolesce. Additionally, stock-out cost resulting from non-availability of stock usually, leads to fall in turnover, idling of manpower and machines, and high operational costs. Stock management, it must be said, is a prerequisite to ensuring optimum investment in stock that ensures continuous production and business processes required to meet orders and expectations of customers. Companies that have stock management at heart, employ an effective and efficient scientific model such as Economic Order Quantity (EOQ), and Just-in-Time (JIT) to regulate their stock levels in order to maximize profitability. Stock management according to Brigham (1990) should take into consideration, three main categories as follows: Raw material; Work-in-progress and finished products.

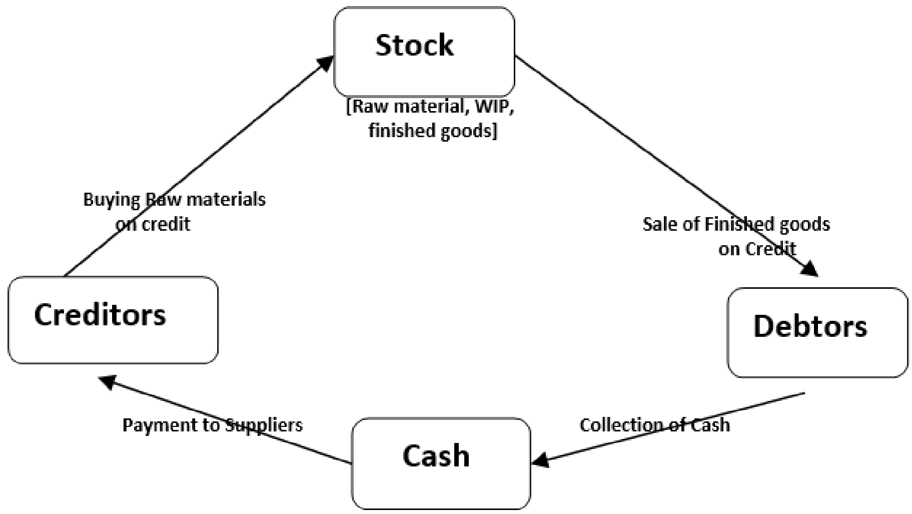
2.8 CURRENT LIABILITIES MANAGEMENT

Working capital management also involves putting effective measures in place to minimize the over-reliance on trade credits and other short-term financing. Even though firms use short-term liabilities to finance part of their current assets requirements, there is the need to limit the extent to which trade credits, short-term loans and overdrafts are used to finance current asset in order to maintain an effective working capital ratio. Failure to resolutely manage current liabilities would have a calamitous consequence on the liquidity position of the firm. Relying excessively on current liabilities to finance a firm's short-term assets is suicidal to the growth potential of the firm since it increases the firm's short-term financial distress as a result of the possibility of paying huge interest costs on short-term borrowings (overdrafts) and incidentally, paying higher price for its supplies as a result of its inability to enjoy cash discount usually attributable to spot payment for goods supplied. Hence, current liabilities management should always be given the prominence it requires in order to enhance both the profitability level and the liquidity position of MSEs.

2.9 WORKING CAPITAL CYCLE

Working capital cycle is an effective measure to estimate the easiness with which companies are able to realize cash from their trading activities by measuring the relationship that exist among debtors' collection period, stock holding period and creditors payment period. The length of working capital cycle has a direct effect on the liquidity position of the firm. The shorter the working cycle, the better it is for the firm to receive cash quicker than a lengthier cycle. As assert by Samuel et al. (1990) indicate that being liquid enables businesses to take immediate advantage of any financial opportunity both in the stock and money markets. It is therefore, crucial for a firm to put in place measures that would reduce the debtors' collection and stock holding periods on one hand and also negotiating with its suppliers for a lengthier creditors' payment period. Mathematically, working capital cycle is computed by adding together debtors' collection period and the stock holding periods and deducting the creditors' payment from it. Where there is excessive pile-up of debtors as a result of the firm's decision to allow huge credit sales to its customers, the working capital cycle will be unduly lengthened and this is a bad sign to significantly cause liquidity crisis for the firm. In actual fact, the shorter the working capital cycle the better it is for the firm since it receives cash quicker than where the cycle is elongated.

FIGURE 1: WORKING CAPITAL CYCLE



THE CONCEPT OF OVERTRADING

Overtrading is a concept that arises as a result of poor liquidity management. Aggressive working management is mainly characterized by overtrading otherwise referred to undercapitalization. Primarily, poor management of debtors causes unnecessary pile up of debtors thereby depriving the firm of receiving cash. Overtrading simply refers to a situation whereby a firm has inadequate cash to finance it operating activities. McMenamin (1999) defines overtrading as a situation whereby a firm carries a level of business activity which cannot be supported financially.

Overtrading poses a major liquidity challenge to firms especially where a greater percentage of their turnover is tied up in debtors, even though there is an increasing demand for their goods. Firms that experience unrelenting increased demand, as a result of selling on credit, normally are faced with the challenge of having to increase their working capital requirements overtime to be in consonance with the increased business activities. Fundamentally, firms are expected to operate within their financial resource capabilities in order to survive and grow. It is a common practice for firms to rely on short-term credit to finance their working capital requirements in order to ensure continuous survival. This situation usually increases the susceptibility of firms to short-term liquidity crises especially where they embark upon over-ambitious investment that is required to meet the increased in demand. Major features of overtrading include:

- Excessive increase in credit sales;
- Dramatic increase in trade debtors; and
- Sharp drop in cash balances or sharp increase in overdraft.

3. METHODOLOGY

The study population comprised of all Micro and Small-scale Enterprises (MSEs) operating in the Central region of Ghana. The choice of the study population was influenced by the fact that these enterprises are predominant in the Central Region where poverty levels are astronomically alarming, and that the business activities of MSEs are considered as an effective means of alleviating poverty. Hence, the need to ensure these businesses survive and growth through efficient working capital management practices coupled with sound business management practices.

Stratified sampling technique with a stratification variable based on industry classification was used to randomly select a sample size of 239 MSEs from 8 major business towns in the Central Region where MSEs activities are thriving. This scientific sample selection technique was adopted in order to give each of the elements in the population an equal and known chance of being selected. To ensure for the representativeness of the respondents, the sample size was selected taken into consideration all the commonest types of business ownership. Data were gathered from respondents who readily accepted to be part of the study. Questionnaires and structured interviews were the main instruments that were used in gathering data for the study. The questionnaires were made up of a combination of both open-ended and closed-ended questions. With the support of four research assistants, questionnaires were distributed to all the 239 respondents (117 micro enterprises and 122 small-scale enterprises) as indicated by table 3.1 below. A total of 214 answered questionnaires from both Micro businesses and MFIs respectively; representing 89.54% response rate, were collected.

TABLE 3.1: SAMPLE SIZE COMPOSITION

Name of Commercial Town	Micro-scale Enterprise	Small-scale Enterprise	Total	Percentage (%)
Cape Coast	19	26	45	18.83
Kasoa	20	28	48	20.08
Mankessim	15	10	25	10.46
Elmina	10	6	16	6.69
Agona Swedru	15	22	37	15.48
Assin Fosu	18	14	32	13.39
Twifo-Praso	11	10	21	8.79
Breman Asikuma	9	6	15	6.28
Total	**117**	**122**	**239**	**100.00**

Source: Field work, January 2016

4. RESULTS AND DISCUSSIONS

4.1. BACKGROUND INFORMATION ON MSEs

Micro and Small-scale enterprises (MSEs) are in recent times dominated the business terrain of Ghana. These businesses are primarily established by individuals mainly, entrepreneurs who fundamentally have profit-making as their primary objective.

MSEs are expected to live to see the foreseeable future based on the assumption of their perpetual existence. This can mainly be achieved where the firm is profitable and also has a sound liquidity balance in terms of its ability to honour its short-term debt obligations. It is paramount to note that the early years in business are essentially characterized by imbalances in terms of profitability and liquidity since the firm has not adequately acclimatized itself with the competitive forces affecting the industry it is operating in, and also the need to study the environmental forces that define its liquidity position. Generally, MSEs, more often than not, face liquidity challenges during the early stages of their existence, hence, the need to pay particular attention to earn supernormal profits and also judiciously, manage its liquidity position to define its prospects in the future. From Table 4.1, majority (61.68%) of the MSEs used in the study are categorized as small-scale micro whereas, (38.32%) are classified as micro-scale enterprises.

It is worth noting that over 33% of the MSEs involved in the study have been in business for only 5 years or less. This makes very crucial to ensure that their liquidity levels are adequately monitored in order to survive. However, over 66% of MSEs have been in business for more than 10 years indicating that survival is not a major challenge.

Furthermore, 187 MSEs (87.38%) categorized as Sole Proprietorship (entrepreneur) were involved in the study. This high percentage is due to the relatively easy nature of the formation of such businesses coupled with the low initial capital requirement. It is quite worrying that only 20 MSEs representing just 9% of the sample size are categorized as Partnership. Partnership business is able to raise substantial capital from its members through collective contribution to enhance their working capital and financial fortunes, unlike sole traders who usually have limited working capital.

Formal education undoubtedly is a major requirement to enable entrepreneurs to realize modern business dynamics and to be in good position to formulate strategies that are required to predict the challenges that may be encountered by the businesses.

These strategies would go a long way to assist micro and small-scale enterprises to take full advantage of both their internal strengths and external opportunities in order to establish themselves very well in that field of endeavour to limit the extent of business failures. Generally, in Africa, there is a high degree of illiteracy level that limits not only business achievements but also social advancement. Data available however, showed that almost 70% of MSEs operators have had at least secondary education. This situation would promote the understanding of financial management principles such as working capital management.

TABLE 4.1: BACKGROUND DETAILS ON MICRO AND SMALL-SCALE ENTERPRISES

	Frequency	Percentage
A. Category of Business		
Micro-scale Enterprises	82	38.32
Small-scale Enterprises	132	61.68
Total	**214**	**100**
B. Type of Business Ownership		
Sole Proprietorship	187	87.38
Partnership	20	9.34
Private Companies	7	3.27
Other form of ownership	-	-
Total	**214**	**100**
C. Category of Industry MSEs Operate in		
Retailing	143	66.82
Wholesaling	38	17.76
Manufacturing	21	9.81
Construction	7	3.27
Services	5	2.32
Others	-	-
Total	**214**	**100**
D. Number of Years in Existence		
Under 1 year	29	13.55
1year - 5years	42	19.63
5years – 10years	123	57.47
10years and over	20	9.34
Total	**214**	**100**
E. Educational Background of MSE's Owners		
No formal education	25	11.68
Basic	57	26.64
Secondary	89	41.59
Tertiary	35	16.36
Second Degree	8	3.74
Total	**214**	**100**

Source: Field work, January 2016

4.2 Existence of Working capital policy

Working capital policy, as it has established is vital to streamline working capital management practices that may be instituted by the firm to serves as the guiding principles that underpin the implementation of sound short-term financial management.

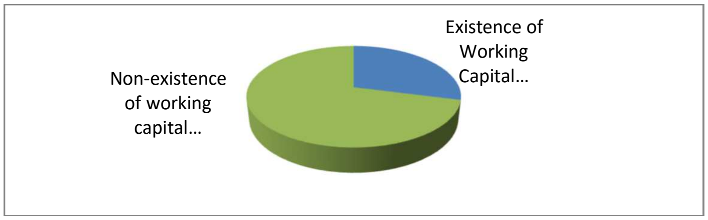
It is essential to ascertain whether these businesses have in existence a workable working capital policy in place and also the extent of compliance, with the view to achieve profitability and sound liquidity management. It is also important to note that companies should be made aware of the importance to put in place an effective working capital policy aimed at regulating the investment in current assets and also the short-term financing requirements to support the firm's financial objectives. A question was posed with respect to whether MSEs have duly put in place working capital policy. Results indicated from table 4.2 that majority (71%) of MSEs, notably have failed to formulate working capital policy to guide the investment in current assets and the short-term funding requirements. This is a worrisome revelation.

TABLE 4.2: EXISTENCE OF WORKING CAPITAL POLICY

Category of MSEs	Existence of Working Capital Policy		No Working Capital policy in existence		Row Total	
	No.	%	No.	%	No.	%
Retailing	33	53.23	110	72.37	143	66.82
Wholesaling	16	25.81	22	14.47	38	17.76
Manufacturing	9	14.52	12	7.89	21	9.82
Construction	2	3.23	5	3.29	7	3.27
Services	2	3.23	3	1.97	5	2.34
Others	-		-		-	
Sample Size	**62**	**28.97**	**152**	**71.03**	**214**	**100**

Source: Field work, January, 2016

FIG. 4.1: WORKING CAPITAL POLICY



4.3 TYPES OF WORKING CAPITAL POLICY IN EXISTENCE

The type of working capital policy in existence is vital to the survival of the company. The working capital policy defines the investments drive in current assets that would support the business processes of the companies in question and also the short-term financing requirement needed to achieve the optimum working capital level. Fundamentally, such a policy may either be an aggressive or conservative in nature depending on the financial resourcefulness of the company in question. It must be noted that irrespective the type of policy being pursued the primary objective of working capital management of ensuring an equitable balance in the current assets and current liabilities. The study revealed that majority of MSEs (representing 74%) are mostly noted to pursue aggressive working capital policy due their continuous overreliance on credit sales to their customers, coupled with extended debtor's collection days.

TABLE 4.3: TYPE OF WORKING CAPITAL POLICY IN EXISTENCE

Category of MSEs	Aggressive Working Capital Policy		Conservative Working Capital Policy		Row Total	
	No.	%	No.	%	No.	%
Retailing	24	52.17	9	56.25	33	53.22
Wholesaling	13	28.26	3	18.75	16	25.81
Manufacturing	7	15.22	2	12.50	9	14.52
Construction	2	4.35	-	-	2	3.23
Services	-	-	2	12.50	2	3.23
Others	-	-	-		-	-
Sample Size	**46**	**74.19**	**16**	**25.81**	**62**	**100**

Source: Field work, January, 2016

4.4 BENEFITS OF WORKING CAPITAL MANAGEMENT

Unquestionably, the importance of working capital management cannot be overemphasized since it remains the pivot of business success of most companies that are mindful of achieving steady levels of profitability. Managing well the components of working capital has direct effect on improving profitability, liquidity transformation and good business prospects. A sound working capital management ensures that investment in current asset components and their short-term financing requirements are maintained at their optimum levels to transform the fortunes of the firm. A question was posed to the MSEs relating to the immeasurable benefits derived from implementing a sound working capital management practice. Surprisingly, despite the numerous benefits of implementing working capital policy, Majority (71%) of the MSEs have not benefited from it due to non-existence of working capital policy. Available data also revealed that all the MSEs, (except for only one SME) that had put in place working capital policy had benefited from it, in improving their profitability and liquidity levels.

TABLE 4.4: BENEFITS OF WORKING CAPITAL MANAGEMENT

Category of MSEs	Benefited from working capital management		Not benefited from working capital management		Row Total	
	No.	%	No.	%	No.	%
Retailing	33	54.09	110	71.90	143	71.50
Wholesaling	15	24.59	23	15.03	38	17.76
Manufacturing	9	14.75	12	7.84	21	9.81
Construction	2	3.28	5	3.27	7	3.27
Service	2	3.28	3	1.96	5	2.34
Others	-	-	-	-	-	-
Sample Size	**61**	**28.50**	**152**	**71.50**	**214**	**100**

Source: Field work, January 2016

4.5 CASH CONTROL PROCEDURES

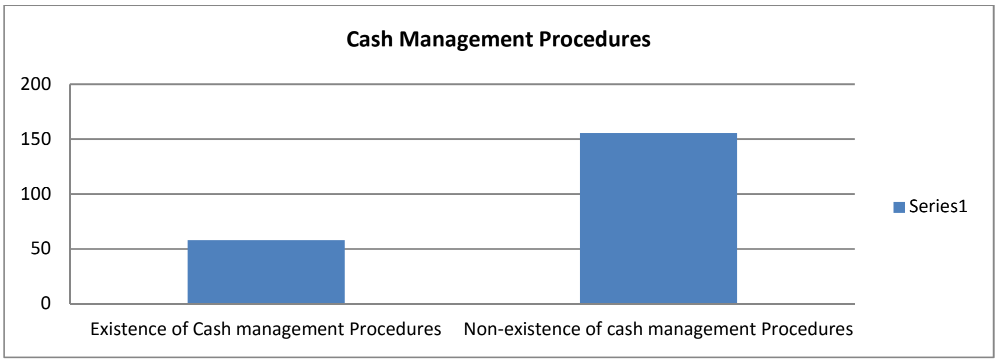
Managing a firm's cash and cash equivalents is critical to ensure sound liquidity position that serves as signal to the firm's ability to have enough cash at its disposal to meet upcoming expenses and short-term debt obligation. Cash is referred to as the life-blood of the firm and must always be kept at its optimum level in order to positively transform the fortunes of the firm. The need to speed up collection of cash and control disbursement is fundamental to ensure sufficiency in cash balances. Specific questions were asked to ascertain the extent to which cash control procedures are implemented by firms. The results from respondents indicate that majority of MSEs (almost 73%) do not have any form of cash control procedures in place as a means of managing their cash balances over time.

TABLE 4.5: CASH CONTROL PROCEDURES

Category of MSEs	Existence Cash of Control Procedures		Non-existence of Cash Control Procedures		Row Total	
	No.	%	No.	%	No.	%
Retailing	32	55.17	111	71.15	143	66.82
Wholesaling	15	25.86	23	14.74	38	17.76
Manufacturing	8	13.79	13	8.33	21	9.81
Construction	2	3.45	5	3.21	7	3.27
Services	1	1.72	4	2.56	5	2.33
Others	-	-	-	-	-	-
Sample Size	**58**	**27.10**	**156**	**72.90**	**214**	**100**

Source: Field work, January 2016

FIG. 4.2: CASH MANAGEMENT PROCEDURES



CREDIT SALES MANAGEMENT

Firms that sell on credit even though have the potential to improve sales, but there is also, the likelihood of piling-up debtors. Care must be taken to ensure that excessive debtors are not accumulated over time since that is a recipe for huge bad debt which militates against the profitability and the liquidity of the firm. It is worth noting that majority of MSEs offer credit sales to their customers, hence, making investment in debtors has a high potential of overstretching a firm's cash resources.

The study indicates that majority (90.65%) of MSEs allow customers to buy on credit and pay later.

TABLE 4.6: CREDIT SALES TO SME CUSTOMERS

Category of MSEs	Allowing Credit Sales to Customers		Not Allowing Credit Sales to Customers		Row Total	
	No.	%	No.	%	No.	%
Retailing	132	68.04	11	55	143	66.82
Wholesaling	35	18.04	3	15	38	17.76
Manufacturing	19	9.79	2	10	21	9.81
Construction	7	3.61	-	-	7	3.27
Services	1	0.52	4	20	5	2.34
Others	-	-	-	-	-	-
Sample Size	**194**	**90.65**	**20**	**9.35**	**214**	**100**

Source: Field work, January 2016

CREDIT CONTROL SYSTEM AND DEBTORS' MANAGEMENT

Credit Control Department is essentially charged with the responsibility of managing a firm's sales ledger and debtors. The extent to which the credit control department is able to carry out its duty decisively by ensuring prompt invoicing and proper credit assessment measures the potency of credit control system by the MSEs and by extension contributes significantly to improve the liquidity position of MSEs.

It is worth noting only 51 MSEs, representing 24.17%, have in existence some form of credit control system to manage debtors, with over 76% of MSEs having no credit control system even though they mostly sell on credit to customers. This phenomenon is very dangerous since it could easily lead to overtrading.

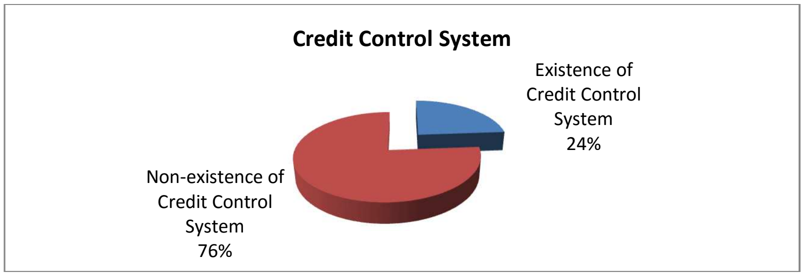
This situation is very alarming since it has been established earlier on that over 90% of MSEs allow their customers some form of credit sales, even though they do not have in place proper and well-tested credit management system in place.

TABLE 4.7: EXISTENCE OF CREDIT CONTROL SYSTEM

Category of MSEs	Existence of Credit Control System		Non-Existence of Credit Control System		Row Total	
	No.	%	No.	%	No.	%
Retailing	33	64.71	107	65.64	140	66.35
Wholesaling	9	17.65	29	17.79	38	18.00
Manufacturing	8	15.69	13	7.98	21	9.95
Construction	1	1.96	6	3.68	7	3.32
Services	-	-	5	3.07	5	2.37
Others	-	-	-	-	-	-
Sample Size	**51**	**24.17**	**163**		**211**	**100**

Source: Field work, January 2016

FIG. 4.3: CREDIT CONTROL SYSTEM



STOCK MANAGEMENT PROCEDURES

Stock management is essential to define the extent to which working capital management can be used by the firm to enhance the financial fortunes of the firm. Investment in stocks is fundamental to the existence of the firm. Excessive or inadequate stock levels are to be avoided if the firm is to transform its liquidity or profitability. Investment in stocks (raw materials, work-in-progress, and finished goods) has a direct impact on the profitability and liquidity levels of firms, and must be given adequate attention in order to survive and grow. Stocks levels must be maintained at their optimum, in order to ensure continuous business flow that is devoid of production stoppages and non-fulfillment of customers' orders. As indicated by Brealey and Myers (2003), the task of stock management is to assess the benefits and cost of holding stocks and to strike a sensible balance.

The study revealed that majority of MSEs (representing 74.25%) persistently failing to put in place any form of scientific stock control measures. Surprisingly, simple stock taking was non-existence in most of the MSEs. It was clear that most MSEs have no scientific measure to monitor their stock levels. The usual practice of most of these entities was to replenish their stock levels only when the stock had run out as customers could not locate any. This situation is a recipe for loss of sales, customer dissatisfaction and pilfering by unscrupulous employees. It must be noted that a total of four respondents, (comprising 2 retailers, 1 each from construction and service industries) failed to answer the question posed.

TABLE 4.8: STOCK CONTROL SYSTEM BY SMEs

Category of MSEs	Existence of Stock Control System		Non-Existence of Stock control system		Row Total	
	No.	%	No.	%	No.	%
Retailing	31	57.40	110	70.51	141	67.14
Wholesaling	16	29.63	22	14.10	38	18.10
Manufacturing	6	11.11	15	9.62	21	10.00
Construction	1	1.85	5	3.21	6	2.86
Services	-	-	4	2.56	4	1.90
Others	-	-	-	-	-	-
Sample Size	**54**	**25.71**	**156**	**74.29**	**210**	**100**

Source: Field work, January 2016

SHORT-TERM LIABILITIES MANAGEMENT

Naturally, companies face deficiencies in their ability to finance their short-term assets needed to sustain continuous flow of operations due to inadequacy of the capital. Hence, the need to rely on short-term liabilities to finance their working capital deficiencies is inevitable in order to ensure their survival. The reliance on short-term liabilities must be cautiously since it eventually has the potential of eroding all the profits of the MSEs. When firms rely heavily on short-term liabilities such as overdraft or trade credits, they are easily ensnared into more liquidity challenges. There is therefore an urgent need to put in place a sound system of current liabilities management in order to determine an apt level of short-liabilities that should be used in order to strike a perfect balance with its current assets such that, the ideal current ratio of 2:1 is fairly maintained. The study revealed that majority (76.89%) of the MSEs relies heavily on overdraft from banks and other micro finance institutions to support their business operations without adequately knowing the real effects on their profitability levels. It must be emphasized that such credit support usually attracts high interest cost which eventually erodes the profitability of MSEs. Hence, the crucial need for an effective current liabilities management.

TABLE 4.9: EXTENT OF RELIANCE ON SHORT-TERM LIABILITIES

Category of MSEs	Reliance on Overdraft facility		Reliance on Credit Purchases		Use of other short-term facility		Row Total	
	No.	%	No.	%	No.	%	No	%
Retailing	116	71.17	25	56.82	2	40	143	67.45
Wholesaling	21	12.88	13	29.55	2	40	36	16.98
Manufacturing	14	8.59	6	13.64	1	20	21	9.91
Construction	7	4.29	-	-	-		7	3.30
Services	5	3.07	-	-	-		5	2.36
Others	-							
Sample Size	**163**	**76.89**	**44**	**20.75**	**5**	**2.36**	**212**	**100**

Source: Field work, January 2016

WORKING CAPITAL CYCLE (WCC)

MSEs usually, lose focus on their working capital cycle. The working capital cycle is indicative about the length of time (usually in days) that a firm is able to realize cash from its trading operations from purchase of stocks to receiving cash from its customers relating to good bought on credit.

Fundamentally, the shorter the working capital cycle the better it is for the company to receive cash early to improve on its liquidity. The working capital cycle takes into consideration the average debtors' collection period (days), the average stock holding period (days) and the creditors' payment period (days). The net working capital cycle is mathematically shown as:

(Debtors' collection period + Stock holding period) – Creditors' payment = Working capital cycle.

The working capital cycle affects the liquidity position of the firm since it defines the rate at which cash is received from operations. Data available indicated that MSEs in the construction industry have the lengthiest working capital cycle (average of 180 days (i.e. 6 months), mainly due to long period required to complete the construction (work-in-process). This was followed by MSEs classified as retail and wholesale (average of 45 days). Fundamentally, it was evident from data gathered that all the MSEs have lengthier average debtors' collection period than their average creditors' payment day. This situation elongates the working capital cycle unduly, thereby delaying receipts.

TABLE 4.10: WORKING CAPITAL CYCLE

Category of MSEs	Average Debtors Collection (Days) (A)	Average Stock Holding (days) (B)	Average Creditors Payment (days) (C)	Working Capital Cycle (Days) = (A+B)-C
Retailing	30	30	15	**45**
Wholesaling	30	60	15	**45**
Manufacturing	30	30	30	**30**
Construction	90	120	30	**180**
Services	-	-	-	**-**
Others	-	-	-	-

Source: Field work, January 2016

5. SUMMARY OF KEY FINDINGS

The following is a summary of the key findings from the data gathered relating to the study:

- Most of the Micro and Small-scale enterprises (87 percent) used for the study fall under sole proprietorship ownership and majority (66.82 percent) of them operate in the retail industry with almost 18 percent also in the wholesale industry. Greater number of MSEs (66.81 percent) had been in operation for least 5years or more.
- The study revealed that only 28.97 percent of MSEs have put in place working capital policy with over 72 percent of retailers not having any form of working capital policy guiding their operations.
- Most MSEs (72.90 percent) have no cash control procedures in place. Hence, cash management is almost non-existence among MSEs;
- Most MSEs (over 74%) do not have any form of stock management control system in place and this may trigger over or under stocking with its attendant crisis.
- Majority of MSEs (90.65 percent) allow customers to buy on credit them but only 24.17 percent of them have put in place Credit Control departments to manage their credit sales;
- Majority of MSEs allow more days to their customers who buy on credit from them (average debtors payment period) than they are allowed suppliers who allow credit to them (average creditors collection period); and
- Over 76 percent of MSEs do rely on overdraft facilities from banks and other sources, with almost 21 percent also relying on credit purchases as means of financing their short-term assets.

6. CONCLUSIONS AND RECOMMENDATIONS

The foregoing summary of findings is indicative about the fact that MSEs have failed to take implementation of working capital management in their business processes. No wonder they are constantly caught unawares with liquidity challenges. The contemporary business environment within which MSEs operate is characterized by dynamic changes, with working capital management playing a key role in ensuring that ideal levels of working capital components are maintained to facilitate continuous business growth and survival. It is demonstrably clear from the findings that, the few MSEs that heartily employ working capital management practices, do benefit immeasurably through liquidity transformation and improvements in profitability. MSEs are required to balance their investment in current assets with the requisite short-term sources of funding. Fundamentally, the incessant liquidity challenges that usually force MSEs to continuously secure short-term financial support from Microfinance institutions and other financial intermediaries at huge financial cost to support current assets investment is properly put in check if working capital management policy is established. Current assets investments must be at their optimum levels with correspondent short-term financing requirements that will improve liquidity position of MSEs.

The following recommendations are made based on the outcome of the results:

- The MSE operators should formulate working capital policy that will spell out the required levels of investments in current assets and the short-term financing required to ensure business growth and development. They should also be consistent and resolute in implementing the working capital policy;
- Effective cash control procedures should be established to facilitate the proper handling of cash and cash equivalents. This will ensure that MSEs speed up collection from debtors and also slow down payments to suppliers. This could be achieved by negotiating for a lengthier creditors' payment period and reducing the debtor's collection period that overdue debts are collected from customers who buy on credit from them;
- There is the need to limit the extent of credit sales to avoid overtrading. A well-resourceful Credit Control Department with dedicated workforce should be established by MSEs to manage their sales ledger properly to avoid unnecessary pile-up of debtors;
- The overreliance on overdraft should be avoided in order not to increase the short-term financial distress of MSEs. This will enable to ensure that the MSEs operate with ideal current liabilities;
- MSEs should employ scientific system of stock management in order to ensure optimum stock levels that would ensure continuous flow of production to meet the anticipated demand; and
- MSEs should desist from pursuing an aggressive working capital policy since it negatively affects their financial objectives as a result of overreliance on short-term borrowing. It is essential to note that when the liquidity position of MSEs improves, the reliance on short-term liabilities to support their current assets investment would be properly put on check. These businesses are encouraged to adopt conservative working capital management policy.

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