International Journal of Economics, Commerce and Management
United Kingdom Vol. III, Issue 7, July 2015
http://ijecm.co.uk/ ISSN 2348 0386

CASH MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN THE NORTHERN REGION OF GHANA

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Abstract

The purpose of this study was to assess cash management practices and its effect on the financial performance of SMEs in the Northern Region of Ghana. The study adopted a descriptive cross-sectional survey research design which allowed the collection of primary quantitative data through structured questionnaires. The target population was 1000 owner/ managers of SMEs. Stratified random sampling technique was used to obtain a sample of 300 SMEs comprising 164 trading 26 manufacturing, 10 hairstyling, 62 dressmaking, and 38 carpentry enterprises. The data was analyzed using both descriptive and inferential statistics. The study revealed that SME financial performance was positively related to efficiency of cash management (ECM) at 1 per cent significance level. The study concluded that cash management practices have influence on the financial performance of SMEs, hence there was need for SME managers to embrace efficient cash management practices as a strategy to improve their financial performance and survive in the uncertain business environment.

Keywords: Cash management practices, Small and Medium Enterprises, Financial performance, Ghana

INTRODUCTION

Working capital management is important due to many reasons. For one thing, the current assets of a typical manufacturing firm accounts for over half of its total assets. For a distribution company, they account for even more. Excessive levels of current assets can easily result in a firm's realizing a substandard return on investment. However firms with too few current assets may incur shortages and difficulties in maintaining smooth operations (Van Horne and Wachowicz, 2000). Businesses are therefore required to maintain a balance between liquidity and profitability while conducting their day to day operations. Liquidity (cash and cash equivalents) is a precondition to ensure that firms are able to meet their short-term obligations when they fall due and at the same time ensuring that profitability is maintained. 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''.

Cash management is seen as one of the key aspects of efficient working capital management. Cash management involves planning and controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time (Pandey, 2004). According to Wetson and Copeland (2008), cash management is concerned with optimizing the amount of cash available, maximizing the interest earned by spare funds not required immediately and reducing losses caused by delays in the transmission of funds. Holding cash to meet short term- needs incurs an opportunity cost equal to the return which could have been earned if the cash had been invested or put to productive use. However, reducing this opportunity cost by operating with small cash balances will increase the risk of being unable to meet debts as they fall due, so an optimum cash balance should be found.

Efficient cash management involves the determination of the optimal cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little (Ross et al., 2011) and as stressed by Atrill (2003), there is the need for careful planning and monitoring of cash flows over time so as to determine the optimal cash to hold. Good cash management can have a major impact on overall working capital management. It is objectively used to manage and determine the optimal level of cash required for the business operation and the investment in marketable securities, which is suitable for the nature of the business operation cycle (Gitman, 2009). Zietlow et al., (2007) and Gitman (2009) explain that "cash management" involves planning for cash inflows and outflows, and determining the optimal balances of cash and near-cash accounts such as marketable securities. Marketable securities are Short-term interest-earning financial claims that can be quickly converted to cash without any significant loss of value.

Research gaps

The role of Small and Medium Scale Enterprises (SMEs) in the world economy have been highly emphasized as the means through which rapid industrialization and other development goals of a nation can be realized. Despite their significance and the increased efforts by governments and other stakeholders to ensure the success of small scale enterprises, they continue to exhibit high birthrates and high death rates. The significance of finance in promoting the growth of small businesses has been well recognised in prior studies on small business growth and development (Abor and Biekpe, 2006). Other studies have identified finance as the most important constraint to growth in the small business sector (Aryeetey, Baah-Nuakoh, Duggleby, Hettige, & Steel 1994; and Steel and Webster, 1992 and Sowa, Baah-Nuakoh, Tutu, and Osei, 1992).

Ch'ng and Chang (1986: 28) have stated that "cash management, an important aspect of financial planning, has become a common factor for small business failure in Singapore". Some of the most important internal problems identified by Grablowsky, and Rowell (1980) which contribute to SME failure are inadequate capital, cash flow management and inventory control. Again cash management practices among SMEs were found to be inadequate in the study done by Grablowsky (1978). In a 1980 study of the cash management practices of small enterprises in Virginia, Grablowsky and Rowell (1980) found that most enterprises did not do forecasting of cash flows, did not use any quantitative techniques to determine cash levels and had no short-term surpluses of cash in their recent history. The study also revealed that SMEs had invested excess cash in earnings securities or accounts (Abanis, Sunday, Burani and Eliabu, 2013). In a1979 study, Cooley and Pullen examined cash management practices of small businesses engaged in petroleum marketing and found out that they had experienced a cash surplus. Also, Murphy's (1979) has found out that active cash management in small enterprises in the UK was unusual, and that there was little inclination to invest surplus cash on a short-term basis.

Several research works have already been conducted on working capital management practices of SMEs in Ghana such as Marfo-Yiadom and Kweku-Agyei (2006) in the Central region, Agyei-Mensah (2012) in the Ashanti region and Appah (2011) in the Secondi Metropolis of the Western region. However, Specific research studies exclusively on cash management practices and financial performance of small Medium Sized enterprises are scarce, especially for the case of the Northern region of Ghana. The cash management practices of small businesses in Ghana, and in particular, the northern region, a small scale businesses dominated region, is an ignored area of research. Keeping this in view and the wider recognition of the potential contribution of the SME sector to the Ghanaian economy, the study is an attempt to explore the effect of effective cash management practices on financial performance of sampled SMEs in the Northern region of Ghana, and its results are expected to contribute to the existing literature on cash management practices of SMEs. The main objective of this study therefore is to examine cash management practices of small scale enterprises in the Northern region of Ghana**.**

The study focuses on cash management practices is limited to the practices associated with management of cash and cash equivalents of small and medium scale enterprises registered with the National Board for Small Scale Industries in the Northern region, as well as the effect of cash management on the financial performance of SMEs. The study is focused on cash and marketable security management to determine how SMEs invest its surplus funds.

This study would be useful not only to small scale businesses in the Northern region but also to all owner/managers of small scale businesses throughout the country. This will also help stakeholders in business to formulate and implement policies as well as practices that will help them to manage cash better. It will also be useful to the academia and thus form the basis for further research.

This paper is divided into five sections, the first section deals with the background of the study, research gaps, purpose and significance of the study and the organisation of the study. The second section deals with the review of related literature on cash management theories and concepts as well as empirical analyses for the study, the third part is concerned with the research approach whiles, the forth part deals with analyses and discussions of results on cash management practices of SMEs and their effects on financial performance, the final part focuses on the findings and recommendations.

LITERATURE REVIEW

Overview and definition of SMEs

While the importance of the SME sector and the informal sector is acknowledged the world over, defining an SME is a challenging task. The issue of what constitutes a small or medium enterprise is a major concern in the literature. Searching for a definition of SME 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 constitutes small and medium enterprises. Researchers and policymakers have used a variety of criteria including; total worth; relatively size within industry; number of employees; value of products; annual sales or receipts; and net worth (Cochran, 1981).

The United Nations Industrial Development Organization (UNIDO) also used 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. For the sake of emphasis, the Ghana Statistical Service (GSS) considered 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 (Kayanuala & Quartey, 2000). 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 GHC 96,000. It is evidenced from the above that Small businesses defy specific definition hence; there is no generally accepted definition for the concept. 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. This study therefore defines SMEs as firms employing less than 20 employees.

Importance of SMEs in developing countries

There is consensus among policy makers, economists, and business experts that small SMEs are drivers of economic growth. A healthy SME sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. The dynamic role of SMEs in developing countries insures them as engines through which the growth objectives of developing countries can be achieved. Growing SMEs contribute to expand the size of directly productive sector in the economy, generating tax revenue for the government as well as facilitating poverty reduction through fiscal transfers and income from employment and firm ownership (Prasad, et al, 2001).

In the same vein, Kayanuala and Quartey, (2000) observed that SMEs are able to withstand adverse economic conditions because of the flexible nature of their operations. They explained that since SMEs are labour-intensive, they are more likely to succeed in smaller urban centre's and rural areas, where they can contribute to the more even distribution of economic activity to curb the flow of migration from rural to large cities. With respect to rural urban employment, Agyei- Mensah (2012) noted that, given the vast number of very small enterprises in both rural and urban areas, it was clear that the small-scale industrial sector provides substantial employment opportunities for the benefit of the rural and urban poor, hence, mitigating the trends in labour migration from rural to urban, decreasing social unrest and congestion in urban centers of developing countries.

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 and Hirt 1992). Abel (2008) argues that cash is crucial in every business in terms of enhancing its survival and prosperity. Marfo-Yiadom (2002) also noted that cash is the hub and most coveted of all the assets of any business. Good cash management can have a major impact on overall working capital management. It is objectively used to manage and determine the optimal level of cash required for the business operation and invested in marketable securities, which is suitable for the nature of the business operation cycle (Gitman, 2005).

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 decisions involving investment both in fixed assets and working capital. The term cash refers to the most liquid of assets, including demand deposits, money market accounts and currency holdings. Moyer, et al, (1992) observed 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 organization.

According to Keynes (1973), positions on the motive for holding cash are merely transaction, precautionary and speculative motives. 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 would be. The transaction motive illustrates the cash holding of firms and therefore more applicable to SMEs. Weston and Copeland (2008) stated that companies need a cash reserve in order to balance short term cash inflows and outflows since these are not perfectly matched. This they referred to as the transactions motive for holding cash, where the approximate size of the cash can be estimated by forecasting cash inflows and outflows and by preparing cash budgets. In addition to the cash reserve held for day-to-day operational needs, cash may be built up to meet significant anticipated cash outflows, for example arising from an investment project or the redemption of debt.

Van Horne (2000) claimed 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 key elements of cash management are cash forecasting, balances management, administration of cash receipts and disbursements, and internal control (i.e. bank reconciliation) (Gitman, 2009). All the above is consolidated into what is referred to in finance language as the cash budget. Cooley and Pullen (1979) have identified three basic components of cash management thus, cash forecasting practices, cash surplus investment practices and cash control practices.

Cash budget or cash flow forecast

Cash budget is a budget that shows the projected cash receipt and cash payments. It shows the cash position of the business during the budget period (Marfo-Yiadom, 2002). According to Weston and Copeland (2008), a cash budget shows the expected cash inflows and outflows over a budget period and highlight anticipated cash surpluses and deficits. Their preparation assists managers in the planning of borrowing and investment and facilitates the control of expenditure.

Birt et al., (2011) explained that the preparation of the cash budget in a given business requires a detailed forecast of cash receipts and cash disbursements. It firstly starts from obtaining the monthly forecast of sales revenues, which may normally come out from the assistance of the sales and marketing department of a given business. This forecast gives the relevant information on the collection aspects for all credit sales transactions, and monthly cash receipts from sales can be predicted. The other cash receipts transactions to the business are then added to cash receipts from sales revenues to articulate the total cash receipts. Cash disbursements transactions must then be forecast and summed up for operating, financing and investment needs. In addition the “Net cash flow” is then calculated as total cash receipts deduct total cash disbursements. The opening cash balance is next added to net cash flow in order to arrive at the closing cash balance. Conventionally, if the closing cash balance is positive, then excess cash may be invested in marketable securities. If the closing cash balance is negative, then additional financing may be required (Oliver & English, 2007).

According to Drury (1994), the objective of the cash budget is to ensure that sufficient cash is available at all times to meet the levels of operations that are outlined in the various budgets. He further asserts that because cash budgeting is subject to uncertainty, it is necessary to provide for more than the minimum amount of cash required, to allow for some margin of error in planning.

Empirical evidence

A study by Kwame (2007) established that the setting up of a cash balance policy ensures prudent cash budgeting and investment of surplus cash. This finding agreed with the finding by Kotut (2003) who established that cash budgeting is useful in planning for shortage and surplus of cash and has an effect on the financial performance of the firms. The assertion by Ross et al. (2011) that reducing the time cash is tied up in the operating cycle improves a business's profitability and market value furthers the significance of efficient cash management practices in improving business performance.

Dong and Tay Su (2010) also attempted to investigate the relationship existing between profitability, the cash conversion cycle and its components for listed firms in Vietnam stock market. Using a descriptive cross sectional design, their findings showed a strong negative relationship between profitability, measured through gross operating profit, and the cash conversion cycle and all of its components. This means that as the cash conversion cycle increases, it will lead to declining of profitability of a firm. Therefore, the managers can create a positive value for the shareholders by handling the adequate cash conversion cycle and keeping each different component to an optimum level.

METHODOLOGY

The study

Ghana is divided into ten administrative regions. The Northern Region, which occupies an area of about 70,383 square kilometers, is the largest region in Ghana in terms of land area. It shares boundaries with the Upper East and the Upper West Regions to the north, the Brong Ahafo and the Volta Regions to the south, and two neighbouring countries, the Republic of Togo to the east, and La Cote d' Ivoire to the west. Agriculture, hunting, and forestry are the main economic activities in the region. Together, they account for the employment of 71.2 per cent of the economically active population, aged 15 years and older. Less than a tenth (7.0%) of the economically active people in the region are unemployed.

The private informal sector absorbs 83.4 per cent of the economically active population. An additional 11.5 per cent are in the private formal sector leaving the public sector with only 4.3 per cent. Majority (40.5%) of the not economically active inhabitants are homemakers and just under a quarter (24.4%) is students. Those who are not working because of old age constitute

14.8 per cent. A small proportion is not working because of disability (2.2%) or are pensioners who are on retirement (1.2%) while 16.9 per cent are classified as others.

Even though majority of the people working in the informal sector are farmers, a large proportion of them are also engaged in small scale businesses. These traders form the nucleus of the local entrepreneurs and thus form the basis of the current study.

Research design

The study was conducted using the descriptive survey design in the form of a cross section. The research design was preferred for the study since it provided a quick, efficient and accurate means of accessing information about the population and it is more appropriate where there is a lack of secondary data. In this case, secondary data on working capital management practices of small scale enterprises in the Northern Region was not available thus conducting a survey to gain such information was necessary (Oso and Onen, 2005).The descriptive survey is meant to elicit owner manager of small businesses' opinions and perceptions on working capital management practices. In this case, secondary data on cash management practices of small scale enterprises in the northern region was not available, thus, conducting a survey to gain such information was necessary.

The justification for using the descriptive cross sectional survey is that it provides a meaningful picture of events and seeks to explain people's perception and behaviour on the basis of data gathered at a point in time.

Population and sampling

The target population of the study consisted of 1,000 SMEs whose owners have attended training programmes of the Business Advisory Centres (BACs) of National Board for Small Scale Industries (NBSSI) or belonged to an association and operating in six towns of the Northern region. The six towns considered among other things were Tamale, Yendi, Savelegu, Tolon, Kumbugu and Damongo. The principal factor considered in the selection of the six towns was their commercial nature. This criterion was used to ascertain the target population due to the lack of credible database and also because it was difficult to obtain the population of small scale enterprises in the Northern Region. The associations', categorized into five sectors based on the nature of their operations are: Ghana traders Association 546; Ghana manufacturers Association 87; Wood and Furniture Workers Association of Ghana 127; Ghana National Tailors and Dressmakers Association 207 and Ghana Hairdressers and Beauticians Association 33.

In all, a total of 1000 members registered with the associations were obtained from the local NBSSI office at Tamale. Out of the 1,000 SMEs, 300 SMEs consisting of 164 trading, 26 manufacturing, 62 Tailors and Dressmakers, 10 Hairstyling and 38 Carpentry enterprises were selected to constitute the study sample size. The sample size was determined using (Saunders, Lewis & Thorn hill, 2007), which states that a population of 1000 should use a sample size of 278 to 300. As with confidence intervals, it suggested 95 per cent while the error of margin is 5 per cent. The study utilised the stratified random sampling technique to draw the appropriate sample of 300.

Data sources and research instruments

In undertaken this study, both primary and secondary data sources were used. Secondary sources consisted of SMEs annual financial statements, budgets and monetary records, cash flow statement, asset register, tax schedule et cetera. The primary data sources were predominantly utilized to generate the requisite data for the research. The data was collected through printed survey instrument in questionnaire, administered by the researcher to owner managers of SMEs in the six selected towns of Northern Region of Ghana.

The questionnaires were used to collect the primary data from the various SMEs in order to tap more information from those who handled and or kept records of businesses. The questionnaire was both structured and unstructured. The questionnaire was made up of closed-ended questions and few open-ended questions.

ANALYSIS AND DISCUSSION OF RESULTS

Background and characteristics of respondents' businesses

Table 1, and Figure 1, provides detailed background information and business profile of respondents. It focuses generally on the educational background of respondents as well as the characteristics of the enterprises surveyed.

Figure 1: Educational Background of Respondents

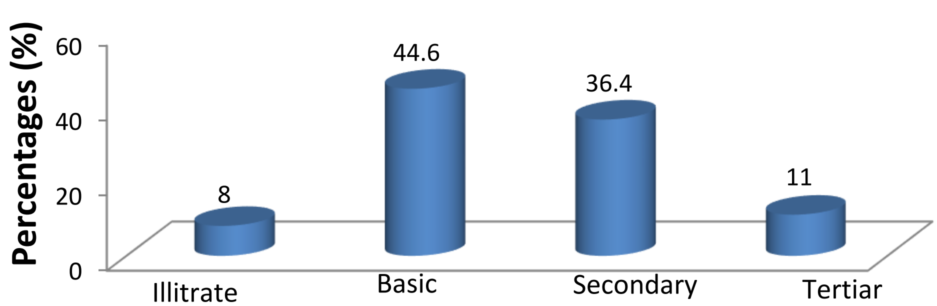


Table 1: Characteristics of Enterprises studied

Form of Business	Frequency	Percent
Sole Proprietorship	272	90.5
Partnership	23	7.8
Limited Liability company	5	1.7
Total	300	100
Number of Years in Business		
Up to 5	154	51.4
6 to 10	79	26.3
11 to 15	33	11.0
Over 15	34	11.3
Total	300	100
Nature of Business		
Manufacturing	26	8.8
Trading	164	54.6
Tailoring and Dressmaking	62	20.6
Hairstyling	10	3.3
Carpentry	38	12.7
Total	300	100
Number of Employees		
None	92	30.8
1 to 5	154	51.3
6 to 10	42	14.1
11 to 15	9	3.0
Over 15	2	0.8
Total	300	100

The characteristics of the enterprises used in the study are presented in Table 1. Sole proprietorship was the dominant form of business organization represented by 90 percent, with limited liability companies recording the least (1.7%). One major observation relating to the legal status of the enterprises was that only about 58 percent had registered with the Registrar General's Department and had evidence to show. In terms of number of years in business, many of the proprietors have been in business between 1-5 years representing about 51 percent. Twenty-six percent had been in business between 6-10 years whiles 11.3 percent had been in business for more than 15 years.

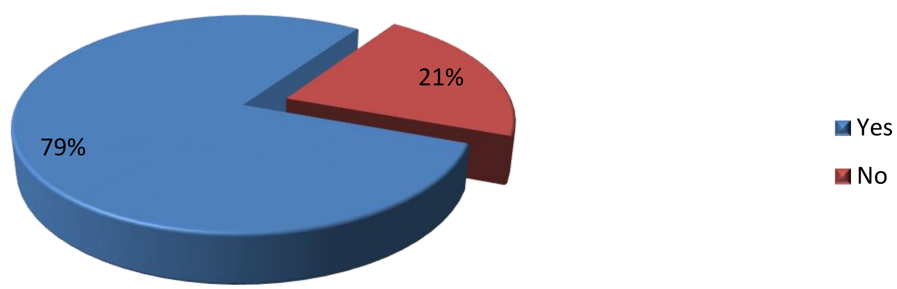
The large number of enterprises with 1-5 years of existence and the low percentage of those who have been in business for more than 15 years reveals the trends regarding the ease of setting up small businesses and the high rate of small business failures.

Regarding educational background of the respondents, about 45 percent of them had basic/primary education, 36 percent had secondary education, and 8 percent of them had no formal education. Eleven percent of the respondents had tertiary education. Generally, the respondents were literates, as depicted in Figure 1. The nature of the business of the SMEs as depicted in Table 1 reveals that more than half, that is, 55 percent were engaged in retailing, a business which is very easy to set-up in Ghana. Other businesses engaged in by respondents included Tailoring and Dressmaking 20 percent, Carpentry 13 percent, Manufacturing 9 percent and Hair Styling 3 percent. The number of employees engaged by the SMEs ranged from nil to thirty. Fifty- one percent of the enterprises engaged between one and five persons, whiles only one percent engaged between 16-30 persons. It is significant to note that about thirty-one percent of the respondents had no employees. Again, this depicts a common feature of small scale enterprises. Family members and apprentices were commonly used by the enterprises surveyed.

Financial records keeping

Figure 2 shown below present information on the financial records keeping of SMEs in the northern region of Ghana.

Figure 2: Financial Records keeping



From Figure 2 above, it can be observed that, about 79 percent of respondents confirmed that they keep records of all financial transactions of their business operation whereas the remaining 21 percent do not keep any form of financial records of their business. This means that majority of SMEs keep financial records of their business in order to manage their cash flows and as a result help determine the financial position of their business. Brooks, et al (1990), attributed the high rate of SMEs failure to poor financial records keeping and insufficient use of accounting information in making decision. This concurs with (Appah, 2011) and Kwame, 2007), that majority of SMEs maintain records of their financial transactions, but only in note books.

Operators of bookkeeping and accounting functions

Table 2 below, show the operators of book keeping and accounting functions of the sampled businesses.

Table 2: Operators of bookkeeping and accounting functions

Nature of operator	Frequency	Percent
Full time accounts staff	13	4.3
Part time accounts staff	47	15.7
Owner/Manager	177	59.0
Other (don't keep records)	63	21.0
Total	300	100

From Table 2 above, it can be observed that 59 percent of respondents indicated they prepared and managed their own accounts as compared to 15.7 percent and 4.3 percent of the remaining respondents who indicated they hired part-time and full-time accounts staff respectively to manage the book keeping and accounting functions of their business. Twenty one percent of the respondents indicated they do not keep financial records of their business. This means that, majority of the SMEs prepared their own accounts, and these sometimes affect the growth of the business. Since most of the Operator/Owner managers have low level of education and less experience in the accounting field, they cannot determine the actual profit/loss of the business as compared to those SMEs who have professional accounts staff managing the businesses' accounts. Larson and Clutes, (1979) identified small business financial shortcomings such as lack of accounting background, cash flow analyses and financial records among others, as a basic problem of small scale enterprises' failures. These inadequacies have been explained as making managers reactionary and ineffective. The findings corroborate the findings of Nyamao et'al (2011) and Marfo-Yiadom and Kweku Agyei (2006) that financial records of most Small firms were prepared and operated by the owner/ managers.

Cash management

The main theme of this paper was to examine cash management practices of SMEs in the Northern region. Every business uses cash balances. Cash is used to pay creditors, pay for purchases, and pay wages and salaries to employees. It is also used to acquire non-current assets. Furthermore, it is required to pay interest on loans and taxation. Cash is the most liquid and the most coveted asset of a business. It is the life blood of every enterprise. The success of a business depends to a large extent on how the firm's cash is managed. According to Lasher (2000), bad cash management can make a strong company weak to the point of failure. He stressed that especially among small firms; it is uncommon for companies to be simultaneously profitable and bankrupt. Moyer et al (2001) submit that effective cash management is particularly important for small firms for the following reasons: to prepare financial plans to support application for bank loans; Because of limited access to capital, a cash shortage problem is both difficult and more costly for a small firm to rectify than for a large firm; Many entrepreneurial firms are growing rapidly; they have a tendency to run out of cash. Growing sales require increases in inventories and accounts receivable, thereby using up cash resources; and Entrepreneurial firms frequently operate with only a minimum of cash resources because of the high cost of, and limited access to, capital.

The study therefore explored the cash management practices of the sampled enterprises.

Bank Accounts maintained by respondents

Table 3 presented below shows the responses of owner/managers regarding the operation of and types of bank accounts maintained by SMEs operating within the Northern Region of Ghana.

Table 3: Bank Accounts maintained by respondents

Response	Frequency	Percent
Yes	171	57
No	129	43
Total	300	100
Type of account		
Savings	82	27.3
Current only	68	22.6
Current and savings	20	6.8
Non response	129	43.3
Total	300	100

From Table 3 above, regarding the type of bank Accounts, the most widely used was savings Accounts, whiles current accounts was the least used. 57 percent of the respondent operated Bank account as depicted in Table 3, as compared to 43 percent who stated they did not maintain bank accounts. The result shows that most SMEs are beginning to appreciate the importance of having a business account. This is similar to the finding of Marfo –Yiadom and Kweku Agyei (2006) who concluded that majority of respondents operated bank accounts and widely in savings accounts. The proliferation of financial institutions has encouraged a number of entrepreneurs to open account for their businesses. Proximity to the financial institutions was considered very convenient for banking activities. Thanks to the increasing number of financial institutions that are located in the Northern region.

Reasons for maintaining bank accounts

Table 4 presents the responses of owner managers of the SMEs, regarding the reasons why they maintain bank accounts for their businesses.

Table 4: Reasons for Maintaining Bank Account

Reason	Frequency	Percent
Access loan from financial institution	74	43.4
Separate business money from personal money	19	11.2
Monitor the growth of the business	27	15.5
Investment in other vehicles	11	6.3
Facilitate payment to suppliers	17	10.1
Facilitate debt collection	23	13.5
Total	**171**	**100**

From Table 4, the major reason (accounting for about 43 percent of possible reasons) for having a bank account by SMEs was to improve the businesses' chances of being given a loan. Also, it appears that most SSEs do not consider investing in other investment vehicles (about 6.3% in the table) to be good enough reason to open a bank account. This offers support for the perception that most small firms are underfinanced and therefore desire to have more capital to facilitate business operation and expansion. The desire for loan seem to have clouded other benefits they stand to gain from having a bank account like to separate business records from personal finance(11.2% in the table), facilitating debt collection or payment by their customers(13.5%), monitoring the growth of the business(15.5%) and facilitating payments to suppliers (10.1%).

Reasons for not maintaining Bank Account

Table 5 shows the reasons which were proffered by respondents for not maintaining bank accounts.

Table 5: Reasons for not maintaining Bank Account

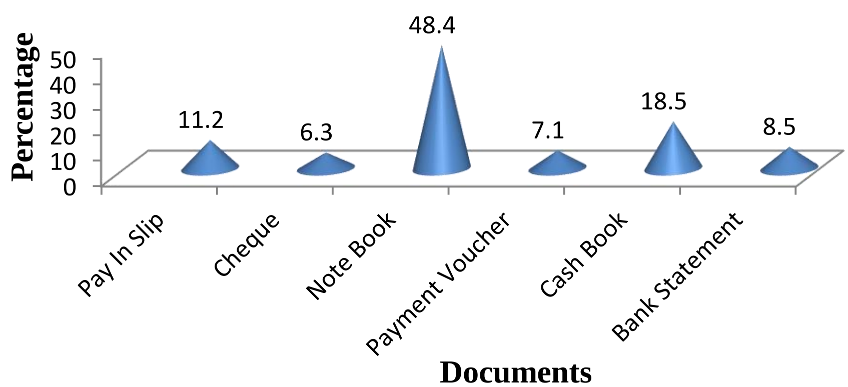
Reason	Frequency	Percent
Plough back into business	38	29.5
Operate *Susu* Savings	31	24.0
Just started the business	11	8.5
Inadequate capital	21	16.2
Because of minimum balance	18	14.0
Other	10	7.8
Total	129	100

The respondents who did not have bank accounts gave a number of reasons ranging from inadequate capital to operation of *Susu.* Those who operated *susu,* that is, daily savings with the informal financial institutions used it to accumulate capital which they ploughed or reinvested into their businesses. These have been shown in Table 5 above. From the table, majority (29.5%) of the respondents indicated they did not maintain bank accounts because they plough their returns back into the business, whiles 8.5 percent indicated they just started the business. Sixteen percent and 14 percent of respondents respectively stated they did not maintain bank accounts due to inadequacy of capital and minimum balance required by the banks.

Records Kept on Cash Transaction

Figure 3 shows the documents on which records of cash transactions of SMEs are kept.

Figure 3: Records kept on Cash Transactions



When the respondents were asked to indicate the various records they kept on cash transactions, note book records were the most significant (48.4%) as depicted in Figure 3. Other forms of records kept on cash transactions with their respective responses included pay-in slips (11.2), cheque stubs (6.3%) and Cash Book (18.5%). Seven percent and 8.5 percent respectively of respondents indicated they also keep records of their cash transactions by way of payment voucher and bank statement. It was observed that the Business Advisory Centres had organized training for some of the enterprises. The cash books supplied by the BAC were being used by some of the respondents. One of the distinguishing features between successful and discontinued small business lie in their approach to the uses which can be made of accounting information. According to JICA (2008), a sound bookkeeping system is the foundation on which all valuable information can be built. Some of the important reasons why financial record keeping is important include but not limited to, monitoring the success or failure of the business, providing information for decision making, obtaining bank financing, other sources of capital, preparation of budgets, and preparing income tax returns. In a recent study in Ghana, Tagoe *et al* (2008) found that small businesses with good record keeping were more successful than those without proper accounting records.

Frequency of occurrence of cash management practices

Table 6 below presents the responses of respondents on the frequency of occurrence of general cash management practices of SMEs in the Northern region.

Table 6: Frequency of occurrence of cash management practices

Management practice	Never 1		Rarely 2		Sometimes 3		Often 4		Very often 5		Mean
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	
Preparation of cash budget	79	26.4	104	34.5	47	15.5	43	14.5	35	9.1	2.455
Determination of target cash balance	107	35.5	95	31.8	63	20.9	10	10.0	24	1.8	2.109
Occurrence of cash shortage	25	8.2	158	52.7	112	37.3	5	1.8	6	0.0	2.327
Occurrence of cash surplus	27	9.1	63	20.9	41	13.6	65	21.8	104	34.5	3.518

On the frequency of preparation of cash budgets, the results as shown in Table 6 indicates that on the average, SME managers rarely prepared cash budgets (weighted average = 2.455). Majority of the respondents (60.9% of all respondents) seldom prepared cash budgets (score 1 and 2 on the scale). Only 23.6 percent of all SMEs often prepared cash budgets (scores 4 and 5 on the scale). The finding shows that SMEs in the northern region of Ghana did not embraced cash budgeting as a tool to plan and control cash flows of their businesses. Contradictory views were expressed by Kotut (2003) and Agyei-Mensah (2012), who established that over 56.25 percent and 57 percent respectively of the businesses studied prepared cash budgets on a daily basis and used them to plan for shortage and surplus of cash. It is equally at variance with Chittenden et al (1998) which indicated that 63 percent of those reporting firms prepared cash budgets but however concurs with the findings of Nyamao et'al (2011), who established that over 65 percent of respondents rarely prepared cash budgets.

On the frequency of determination of target cash balances, the results of the study as shown in Table 9 show that on the average, 24 SMEs representing 11.8 percent of the SMEs indicated that they often determined their target cash balances (score 4 and 5 on the scale) as compared to 67.3 percent who indicated that they hardly determined their target cash balances (score 1 and 2 on the scale). The results suggest that on the average, majority of the SMEs hardly determine the appropriate amount of cash to hold. The pronouncement is consistent with a finding by Kwame (2007) who established that small firms rarely pay attention to setting up a cash balance policy but simply consider cash-balance as the result of differences in cash inflows and outflows without any guidelines. It also corroborates the finding of Nyamao et'al (2011). However, the finding is at variance with the finding by Waweru (2003) who established that most businesses studied had a set minimum cash balance level which guarded them against running out of cash.

On how regularly SMEs experienced cash surpluses as compared to cash shortages, Table 6 shows that on the average, SMEs experienced cash surpluses regularly and experienced cash shortages irregularly as indicated by their weighted averages of 3.518 and 2.327 respectively. Majority of the SMEs (56.4% of all the SMEs) regularly experienced cash surpluses compared to only 1.8 percent of all SMEs that indicated that they regularly experienced cash shortages (score 4 and 5 on the scale). The finding buttresses the assertion by Scarborough and Zimmerer (2003), that small businesses reserve cash and maintain relatively high current ratios to ensure that they do not run out of cash hence the conclusion that the management of cash surpluses rather than cash shortages is a problem for SMEs.

Investment of temporary cash surplus

Figure 4: Investment of temporary cash surplus

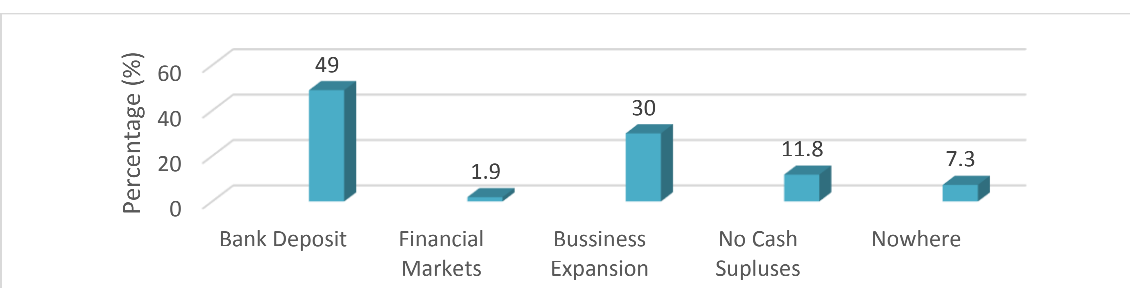
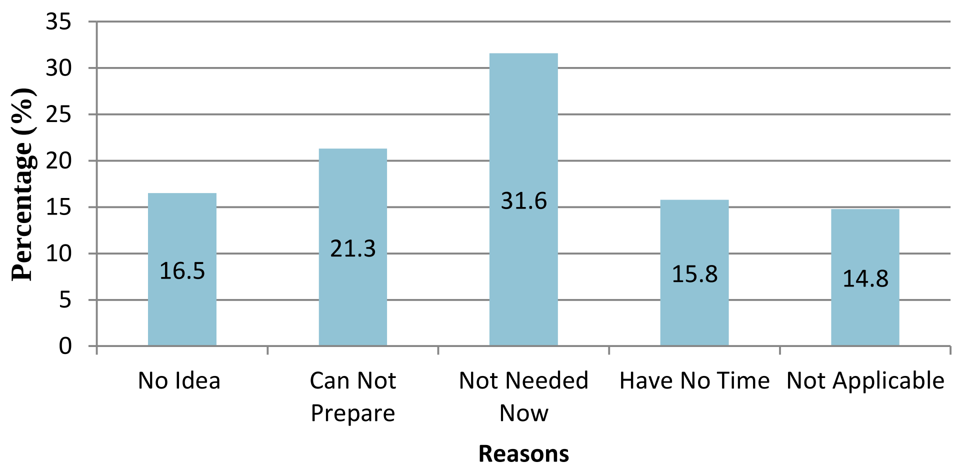


Figure 4 above shows that 49.1 percent of the SMEs that experienced cash surpluses reported that they deposited it in bank accounts for interest while 7.3 percent reported that they had it lying idle in the business. This implies that up to 56.8 percent did not invest temporary cash surpluses for profit. Also, only 1.9 percent of all SMEs invested their cash surpluses in financial markets. This finding supports the pronouncement by Waweru (2003), that majority of businesses do not invest their surplus cash in marketable securities. It also confirms Kwame (2007) decree that most small businesses have problems on how to invest temporary cash for profitable purposes. Furthermore, the study concurred the findings of Nyamao et'al (2011).

Reasons for not keeping budgets

Figure 5 presents the reasons why respondents do not prepare cash budget.

Figure 5: Reasons for not keeping budgets



From Figure 5 above, 31.6 percent of the respondents who seldom prepares the cash budget reported they didn't need it at the time while 14.8 percent reported that cash budgets did not apply to their business. This implies that up to 83 percent of the respondents, who did not prepare cash budget, didn't actually see the need for its preparation. Only 16.5 percent of the SMEs indicated they didn't prepare budgets because they had no idea. This finding supports the pronouncement by Waweru (2003), that majority of businesses do not prepare cash budgets. It also confirms Kwame (2007) decree that most small businesses have problems on how to prepare cash budgets. Furthermore, the study concurred with the finding of Nyamao et'al (2011), who concluded in their study of small scale enterprises and financial performance in the Kiisi South District of Kenya that about 33 percent of respondents indicated they did not need cash budget with 17 percent stating they had no idea as to budget preparation.

The relationship between cash management practices and financial performance

The study also sought to establish the relationship between cash management practices and the financial performance of SMEs. Pearson's correlation coefficient was used to address this objective. Before the correlation was carried out, the test for the linearity assumption was done by the use of scatter plots and none of the plots demonstrated a non-linear pattern.

Pearson's correlation coefficient results

The correlation results as shown in Table 7 shows that there was a strong positive relationship between SMEs' Financial Performance (FP) and Effective Cash Management(ECM) ($R=0.612$, $p<0.01$). Generally and as reflected in the empirical review, most researchers have showed that businesses' performance is correlated positively to cash management practices (Kotut, 2003; Kwame 2007; Dong and Tay Su 2010, and Ross et al. 2011) and are therefore supported by this research finding.

Table 7: Correlation results

Parameters	Variables		FP	ECM
Spearman rho	FP	Correlation co-efficient	1.000	
		Sig.(2 tailed)	-	
	ECM	Correlation co-efficient	0.612	1.000
		Sig.(2 tailed)	0.000	0.000

Correlation is significant at 0.01 level (two tailed)

SUMMARY OF FINDINGS

Difficulties of inadequate liquidity or cash flow resulting from poor cash management practices and difficulties in raising funds were most frequent in the sampled SMEs. These cash problems were as a result of poor managerial practices including the inability of the SMEs to keep track of their operations and to use such information in planning and management of their financial transactions to salvage the cash flow. The finding shows that SMEs in the northern region of Ghana did not embraced cash budgeting as a tool to plan and control cash flows of their businesses as majority of the respondents indicated they did not prepare cash budgets.

The result of the finding also suggests that on the average, majority of the SMEs hardly determined the appropriate amount of cash to hold. On how regularly SMEs experienced cash surpluses as compared to cash shortages, on the average, Majority of the SMEs (56.4% of all the SMEs) experienced cash surpluses regularly and experienced cash shortages irregularly as indicated by their weighted averages of 3.518 and 2.327 respectively. Forty nine percent of the

SMEs that experienced cash surpluses reported that they deposited it in bank accounts for interest while 7.3 percent reported that they had it lying idle in the business which implied that majority (up to 56.8%) did not invest temporary cash surpluses for profit. The correlation results of the study showed a strong positive relationship between SMEs' FP and ECM ($R=0.612$, $p<0.01$).

CONCLUSIONS

The study can conclude that SMEs in Northern Region of Ghana are not good at managing their cash since they seemed not to have embraced and implemented efficient cash management practices in their business operations. This was envisaged in their low means of the efficiency levels in cash their limited application of theories of cash management in their operations .The study revealed that owners/managers experience was found to be more important than application of theories of both inventory and cash balances in majority of the SMEs in the study.
The findings of this study collaborate to a greater extent with the study of previous researchers which indicated that, careless working capital management practices is a major cause of SME failure (Berryman, 1983) and cash flow management , inventory control and bad debts or poor receivable management are the most internal problems of SME.

RECOMMENDATIONS

The advent of the internet has brought a lot of innovations in the management of cash. For example, by using the internet the SME can automatically route surplus cash to profitable investments. This is an area that SMEs should consider investing in. A web-enabled treasury function brings a number of benefits. It allows increased control over cash positions and creates a portal for managing portfolios and trading in short term financial instruments like, over- night call account, treasury bills, others, available on the money market. To help raise the standard of financial reporting in small and medium enterprises, it is recommended that owners/managers should make good use of available computerized accounting packages. Computer spreadsheets are essential to modern organizations, as they allow managers to prepare a lot of financial reports. For example, cash budgets are vital to the management of cash. Management often makes use of cash budgets in determining cash surpluses or deficits. The availability of computer spreadsheets help in preparing several cash budgets based on possible future situations.

The SME managers should invest their cash surpluses in ventures that yield high returns such as treasury bills or in overnight call accounts which yield high returns. This will help avoid keeping large cash balances in non-interest yielding current accounts. They should also make use of computerized accounting packages to help improve their efficiency in cash management. The National Board for Small Scale Industries (NBSSI) should design and print more simplified record keeping documents, like their current cash book, for use by the SMEs. The use of field staff by financial institutions to collect deposits from the SSEs at their place of business is laudable and should be maintained. The financial institutions should monitor the savings habits of their clients especially their peak and lean periods and improve their advisory services to enable the entrepreneurs invest in short-term instruments.

Based on the establishment of the fact that the financial performance of SMEs in Northern region had a low average, with majority of the SMEs describing their performance to be either deteriorating or failing, the study concludes that most small scale enterprises in the region are not thriving, hence their contribution to economic development and their evolution into large enterprises as envisaged in their conceptual plans may not be certain. The study therefore suggests that the small enterprise sector needs effective and dynamic management skills in order to remain successful. Hence, the emphasis on credit provision by the Government of Ghana should be flanked with appropriate training programmes. Financial management training sessions should be offered to the managers of SMEs as well as the recruitment of field officers to provide counsel and other non-financial services to the small business operators so as to help improve their cash management efficiency levels.

Owners/managers of SMEs should avail themselves with the various training programmes organised by government and other bodies like; government- sponsored business support services such as the National Board for Small Scale Industries (NBSSI), Ghana Regional Appropriate Technology and Industrial Service (GRATIS), Empretec Foundation, and Ghana Chamber of Commerce and Industries (GCCI), to polish their knowledge in financial management and other managerial topics. This will help improve their trading activities as poor managerial skills have commonly been associated with SMEs failure.

Though the results of the findings may not be perfect but with the responses received from respondents, it may be assumed to have served the purpose of the study. This is an exploratory study, the prime objective of which is to encourage future research using large sample.

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