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A Literature Review on Management Practices among Small and Medium-Sized Enterprises

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***Abstract**: Medium and Small sized Enterprise management is the act of aligning and integrating all facets of a small business, including managing your staff, vendors, finances, business strategy, and day-to-day operations. For the proprietor, running a small or medium-sized business has certain special difficulties. You need to understand financial management, human resource management, and the laws and regulations pertinent to your industry in addition to the fundamentals of small company principles. Small and Medium-sized Enterprises (SMEs) continue to perform poorly despite the increased interest in private enterprises' contributions to employment and income creation. In this study, the review covered the SME management practices from a variety of areas such as; financial management, cash management, investment returns among SME owners, financial reporting and analysis, working capital management among SMES, accounting information (value-relevance), inventory management practices, fixed asset management practices, challenges of effective financial management practices among SMES, accounts payable management, accounts receivable management, and the relevance of SMES sector We see that the quality of managerial practices improves the level of performance of firms. SMEs promote economic growth in every nation hence there is a need for policymakers to support the improvement of managerial skills of entrepreneurs in order to increase the (SMEs) contribution to economic growth and employment.*

***Keywords:** Small and Medium-sized Enterprises (SMEs), Business Management, Economic growth, Investment, Accounting Information and Entrepreneurs.*

1. INTRODUCTION

The purpose of this review paper is to identify management practices that are characteristic of SMEs that achieve market success as measured by their business performance in the last years of their operation in order to analyze the relationships between management practices applied in small and medium-sized enterprises and their success as measured by their business performance in the last years of their operation.

2. FINANCIAL MANAGEMENT

In financial management, businesses seek to effectively and efficiently control funds using suitable approaches that will make the organisation achieve its goals. It is a conscious effort by the top management of an organisational setting. The whole idea of managing the finances of an entity is to plan, organize, direct and control the financial endeavors of an enterprise. This entails an application of various principles in enhancing the growth of businesses and it is a critical aspect of economic and non-economic activities of the organisation. Effective financial management has proven to encourage efficient decision making and profitable utilization of finances. In business, the scope of financial management has increased, providing innovative and multi-dimensional features and viewed as an integral aspect of the business concern.

Financial management has revolved from several identities such as financial engineering, financial

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economics, corporate finance and business finance. In financial management concept, SMEs cannot be left out as managers need to understand them appropriately. As an essential part of the entire management of a business, it again spells out the responsibilities of managers of a business entity. Again, just as other management aspects of a business, financial management basically have goals and objectives. The objectives serve as a basis for monitoring and evaluating financial management's efficiency and effectiveness. According to McMahon (1995), the ultimate goal that must be achieved in financial management is an improvement and increase in the wealth of owners of an organisation. Profitability and liquidity therefore are identified as two key aspects that are specific to the goal of financial management. Profitability encompasses an increase or sustenance of returns by giving great awareness to certain strategies including how to control costs, develop policies relating to pricing, managing stock as well as capital expenditures and observing the volume of sales. The objectives entirely help in achieving the general goal of the business which makes them consistent. The sole aim of liquidity management is to make sure all obligations of the entity in terms of payments of loans, wages, bills and taxes are met. Profitability management on the other hand reduces idle cash balances which could be profitable to the business if they are invested appropriately (McMahon, 1995). In addition to McMahon's assertion, growth is seen as another objective of financial management (English, 1990). Regarding the role of SMEs, it is explained by Ang (1992) that three components must be maximized. The first is to enlarge the current market price, keep away from unwanted mergers and attain external financial support in the securities market. Second is to increase intrinsic long term value. Lastly, there should be increase in incomes of non-owner managers by doing aware with control rights. The current performance of small businesses is therefore very necessary to obtain external funding.

Consequently, some SMEs have average objectives function comprising a combination of long term value and current profit. In terms of weight for current profit, small business which approach loan re-negotiation, entering long term contracts with suppliers or customers and possible dissolution of partnerships. On the other hand, the weight will be smaller when the business is due to make estate tax payments, in employee contract renegotiations, and avoiding taxes on surplus accumulation. In taking financial management decisions, the objectives that financial management present must be noted by the financial manager with particular emphasis on balance between profitability and liquidity which may result in current and future growth. The commonest definition of financial management which is mostly acceptable is from Kuchal (1998) and states financial management as dealing with the procurement of money and effectively utilizing these funds in the business. Upton and Howard also defined financial management as applying managerial principles generally to financial decision-making.

The idea of financial management is to effectively manage funds in a business entity. In order to ensure appropriate use of funds by a business, profit and wealth maximization must be broadly considered. Every business entity has the main objective of gaining profit and as such, profit is the standard to which business efficiency can be understood. This particularly results in broadening the business operation to maximize profit. The objective of increasing profit helps to limit business risk. Wealth maximization on the other hand is a contemporary approach which involves current advancements and innovations in business.

3. CASH MANAGEMENT

The purpose of cash management is to determine and achieve the appropriate level and structure of cash, and marketable securities, consistent

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with the nature of the business's operations and objectives (Kaiser & Young, 2009; Gitman, 1997). Cash and marketable securities should be managed so as to achieve a balance between the risk of insufficient liquid or near liquid resources, and the cost of holding excessively high levels of these resources. In order to achieve and maintain this balance, which is subject to continual dynamic processes, both the motive and the appropriate level of cash needs to be established and monitored (Kaur, 2010; Chambers & Lacey, 1994). In order to do this a variety of activities need to be undertaken, because of the integrative nature of cash to the operation of the business. For example, since all the business's assets are paid for with cash and are converted through time back into cash activities by means of improving cash forecasts, synchronizing cash flows, using float, investing excess cash, speeding up cash receipts, and delaying cash payments. This will have a considerable impact on the minimum level of cash necessary to maintain a particular level of liquidity.

If a business improves its forecasts and arranges its affairs so that cash inflows are synchronized with cash outflows, and transaction balances can be reduced, the level of working capital can also be reduced. If working capital is financed from debt, the reduction in the magnitude of working capital will result in lower interest payments which in turn will give rise to improved profit, greater efficiency and productivity, and enhanced return on assets and return on equity (Kaur, 2010; Miller, 1991). There are several approaches to assist with the management of cash. The cash budget ratio approach, cash budget, cash forecasting, Baumol, Miller Orr, and Stone models are some of the more popular approaches (Kaur, 2010; Brigham, et al. 1999). The cash budget ratio approach sets a performance target in terms of the ratio of cash to the number of days' worth of payables or, the ratio of cash as a percentage of sales. These target ratios are compared to the industry average. This approach is subject to the well documented limitations of ratio analysis (Kaur, 2010; Gallinger & Healey, 1987).

Cash budgeting or a receipts/disbursements approach focuses on the management of cash flows and balances. This approach is based on the assumption that both the magnitude and the timing of cash receipts and disbursements are known with a high degree of accuracy. By means of sensitivity and scenario analysis, accuracy in the magnitude and timing of the cash flows can be factored into the analysis. The cash budget remains one of the most important tools for the financial manager in maintaining liquidity, and obtaining an indication of the impact of liquidity on profitability (Mathuva, 2010; Gitman, 1997).

Cash forecasting is an estimate and projection of the business's cash needs on a daily, weekly, monthly, and annual basis by considering factors such as sales, fixed assets, inventory requirements, times when payments are made, and collections received. The cash forecast can be combined with the daily, weekly and monthly actual bank balances (Barney, 1991), and forms part of the business's cash control system and cash budget enabling firms to plan for unexpected surpluses or deficits (Kaiser & Young, 2009; Scherr, 1989). Apart from the above approaches, which may assist with the management of cash, models such as the Baumol, Miller-Orr, and Stone models are available (Kaur, 2010; Baumol, 1952). The economic order quantity model which was developed to manage the ordering of inventory was modified by Baumolin order to be able to set target cash balance (Baumol, 1952). Baumol's model is based on restrictive assumptions concerning the behaviour of cash flows. Specifically, cash outflows, cash inflows, and the net need for cash occur at a steady and predictable rate. Using cash flows with these restrictive characteristics, the target cash balance is set. The target cash balance minimizes the total cost of holding cash by taking transactions and opportunity costs into account. Unlike Baumol's model which is based on the assumptions of steady and predictable cash flows, the Miller-Orr model makes provision for cash flow volatility (Gitman, 1997).

Whereas the Baumol model is based on assumptions of steady and predictable cash flows, the Miller-Orr model for determining the target cash balance has greater operational content because it assumes that cash flows are subject to volatility, and that the distribution of daily net cash flows follows a trendless random walk. With this model, management sets the lower cash limit, and the model generates the target cash balance, as well as the upper cash limit. The Miller-Orr model has been empirically tested and has been found to perform reasonably well. The assumption that the distribution of net cash flows follows a trendless random walk can be relaxed without dislocating this model. Whereas the Miller-Orr model focuses on setting the target balance, the Stone model is focused on the management of cash balances (Brigham et al. 1999).

The Stone model is a refinement of the Miller-Orr model. When the cash position reaches a predetermined level, which is less than the upper limit and greater than the lower limit, management examines the cash flow forecast to ascertain whether the actual cash flow balance is likely to breach the upper and lower limits. Unless these limits are likely to be breached, no action, by way of purchase or sale of marketable securities is taken. By incorporating expectations about cash flows in the immediate future, say five days, the number of transactions is minimized. The control limits and target level of cash can be set using the Miller-Orr model (Kaiser & Young, 2009; Hill & Sartoris, 1992, Scherr, 1989).

4. SMALL AND MEDIUM SCALE ENTERPRISES

A good SME is an economic venture or an industry which has a total asset base with land and building inclusive is not more than one million United States dollars in the cedi equivalent according to the Venture Capital Trust Fund Act, 2004 (Act 680). Also, the Ghana Statistical Service (1987) established that Small Scale Enterprises are firms that recruit from 5 to 29 people and have a fixed asset sum of 100,000 United States dollars or less. Medium Scale Enterprises are also firms that have employee's numerical strength between 30 and 99. The Bolton Committee (1971) in a qualitative definition with evidence from the UK provided three key traits that SMEs portray. Economically, a small business is an entity that relatively has a small market share and also not capable of manipulating prices and amount of goods and services. Moreover, an important feature of small businesses is with its management. Usually, these businesses are managed by their owners or caretakers as a personal role at the expense of a formal managerial framework as present in well established companies. Lastly, SMEs are autonomous because they do not form part of big enterprises and that managers who are the owners must be independent when making their principal decisions in terms of purchases, employee recruitment, finances, accounting mechanisms, and marketing.

It must be noted that, there is no existence of a universally approved definition of SMEs. While some of the descriptions of SMEs are based on their overall revenue, others are defined based on the number of employees in them. According to the European Union, a medium scale business is one that has a headcount of 250 people whiles a small-sized business has less than 50 people. A micro-enterprise also has a maximum of 10 employees. In Ghana, SMEs are regulated by the National Board for Small Scale Industries (NBSSI). In the definition of SMEs by this regulatory body, there is an indication that these types of businesses (taking into consideration the number

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of employees and fixed assets) have a turn over exceeding USD200, 000 and not more than USD5 million equivalents.

Over the years, SMEs have emerged to become a major supplier of goods and service provision to a lot of large corporations including transnational corporations and multinational corporations as they form the vast majority of business organisations in Ghana. SMEs have further provided value-added activities in the manufacturing sub-sector and particularly in the service sector have provided enormous employment opportunities. This has resultantly made SMEs very important to almost every nation in the world and most especially in developing economies. In the view of Palm and Gabriel (2005), job creation in many countries is driven by the operation of SMEs since they are labour intensive and capture more labour per unit capita as compared to larger firms. The evidence is clear in developing nations like Ghana with the estimation that the SMEs sector absorbs about 35% of the total labour force of the country (Mensah and Rolland, 2004). Also, Sowa et al (1992) reveal that people who have a public employment opportunity even have a second supplementary job in the SME sector.

Besides creating jobs for a substantial number of the labour force, SMEs are viewed as avenues for investment, professional development of skills and a source of income to the government in terms of tax revenue. Essentially, Yankson et al (1985) reveal that SMEs create serene conditions as far as the provision of infrastructure and other amenities such as roads, water and electricity are concerned. They also have a positive implication on the rural and regional growth and development of Ghana since they enhance national decentralization and migration policies. Additionally, governments view SMEs as assisting significantly in the quest to adopt a private-oriented development strategy as a way of moving from the state-led approach (Aryeetey et al, 1994). In Ghana, the SMEs sector is thus a major employer in the economy.

In terms of Gross Domestic Product (GDP) of Ghana, SMEs are estimated to contribute about 70% of it and accounting for nearly 92% of number of businesses in the country (Villars 2004). The NBSSI in its statistics discloses that SMEs sum up to about 90% of the GDP contribution of the private sector in Ghana. There is also an important feature of SMEs in the social and economic development of Ghana's economy and by extension that of Africa. Throughout the African continent, the promotion of SMEs is almost a topmost agenda of all governments. The United Nations organisation for industrial development rate SMEs as businesses whose number of personnel does not exceed a particular limit. SMEs therefore by a significant margin outnumber larger companies throughout the world and importantly employ more people.

5. MANAGING INVESTMENT RETURNS AMONG SME OWNERS

In the operations of SMEs, it is important that the financial manager derives careful strategies on how to share profit among shareholders. This is an essential aspect of the business since these decisions relate directly to the wealth of shareholders. Dividend decisions are also a key role of the financial manager and just as he makes financing and investment decisions. The dividend policy decided by the business must consider other issues in the form of retained earnings and nature of shareholders of the business. Dividend distribution is related to the sharing of net profits among shareholders at a defined period of time. In other words, it is the portion of profit that is given to business shareholders proportionately.

According to Sharan (2005), "the dividend decision is concern with how much of the profit of the business is distributed among shareholders as dividend and how much is the retained in the

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firm". Dividend is also defined by the Indian Institute of Chartered Accountants as the sharing of available reserves or profits to shareholders. The dividend can be paid in cash or non-cash form. If it is paid in case, it is term as cash dividend. This is paid within certain periods of time and this is called Earnings after Interest and Tax (EAIT). Cash dividends are the commonest types of dividend payments. Another form of dividend is the stock dividend. It is paid as company stock as a result of increase in finance. In this instance, the cash dividend is retained by the entity.

The stock dividend may also be given to existing shareholders of the business. Also, there is bond dividend which can also be referred as script dividend. This comes into play when the business entity has insufficient finances to cater for cash dividends and as such, pledges to pay shareholders in the future at a said date through issuance of bonds or notes. Dividend decisions form a critical role in financial management since it determines the accumulated profits of the business. The decision on dividends is resultant on two significant concepts which are based on relationship between dividend decision and firm's value. It however depends on how profitable the entity in question is. This is because, generally when a business attains more profit, it will have positive results on the dividends of shareholders since they will earn more. A firm must therefore maintain a standard policy on dividend because of future income and the quest of shareholders to get regular income.

There are several restrictions in relation to declaration and payment of dividends as provided in the Companies Act 1956. In the same way, restrictions are laid down in the Income Tax Act, 1961 concerning dividend payment. It has therefore been established that, the ability of a firm to easily pay dividend has a direct relation to its liquidity position. This means that a firm can pay cash dividend if its liquidity is high and vice versa. Increase in growth rates means that the business can share more dividends to the shareholders of the firm. The tax policies that the government has put in place may also affect the dividend policy of the firm and if there are tax incentives ushered by the government, the firm is obliged to pay more dividends. Due to the conditions of the capital market, there is a consequent effect on the dividend policy. A perfect capital market results in an improvement of dividend. The determination of amount to be spread, demands on thorough knowledge in financial management. It must be emphasized that dividend decision is affected by investment decision, and financing decision and the three (3) are interrelated and complementary and cannot stand alone.

6. FINANCIAL MANAGEMENT PRACTICE

According to Baker (1991), financial management is the acquisition and utilizing of funds in a way that achieves the firms' desired goals. Sound financial management and good accounting practices are the best ways for business to remain profitable and solvent. How well you manage the finances of your business, its cash flow and profitability is the cornerstone of every successful business operation. Each year, thousands of potentially successful businesses fail because of poor financial management, Bad practices, inadequate records, unqualified advisers; unethical procedures, tax evasion etc. are just some of potential problems that you might experience.

Bradley (1986), "Financial management is the area of business management, devoted to a judicious use of capital and a careful selection of sources of capital, in order to enable a spending unit to move in the direction of reaching its goals." (Gitman, 1986; p8). This definition points to the four essential aspects of financial management. Firstly, financial management is a distinct area of business management. That is, financial manager has a key role in overall

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business management. Secondly, financial management is the prudent or rational use of capital resources proper allocation and utilization of funds. Also, it is the careful selection of the source of capital - determining the debt equity ratio and designing a proper capital structure for the corporate.

Lastly, financial management is a Goal achievement, ensuring the achievement of business objectives viz. wealth or profit maximization. Maness (1988), "Finance is the study of the acquisition and investment of cash for the purpose of enhancing value and wealth". Pinches (1990), also defines Financial management as "acquisition, management and financing of resources for firms by means of money, with due regard for prices in external economic market. Financial Management means the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization.

Financial management is one of several functional areas of management but it is central to the success of any small business (Meredith, 1986). Financial management is the management of finances of a business in order to achieve the financial objectives of the business. McMahon et al. (1993) defines financial management based on mobilizing and using sources of funds: Financial management is concerned with raising the funds needed to finance the enterprise's assets and activities, the allocation of theses scare funds between competing uses, and with ensuring that the funds are used effectively and efficiently in achieving the enterprise's goal. Financial management as used in this study is composed of five (5) constructs and these include; working capital management which is also subdivided into cash management, receivables management and inventory management. Other constructs under financial management include; investment, financing, accounting information systems and financial reporting and analysis.

Ross et al (1999) indicated three kinds of decisions the financial manager of a firm must make in business; these include the financing decision, and decisions involving short-term finance and concerned with the net working capital, investment and financial reporting. Similarly, Ang (1992) also indicated three main financial decisions including the investment decisions, financing decisions and dividend decisions. The strong points of financial management practices in the SME sector have long attracted the attention of researchers. Depending on different objectives, researchers emphasize different aspects of financial management practices. McMahon, Holmes, Hutchinson and Forsaith (1993) and McMahon (1993) summarize their review of financial management practices in Australia, the UK and the USA. In their review the context of financial management practices includes the following areas: accounting information systems, financing decisions, investing decisions. However, these previous researchers though looked into financial management; they did not include other key areas like working capital management which would include accounts receivable, inventory, cash management and accounts payable management.

7. FINANCIAL REPORTING AND ANALYSIS

SME owners, despite the importance of record keeping in financial management practices, face some challenges in trying to effectively keep records of their transactions as revealed by Stephanous and Rodriguez (2008); Anane, Cobbinnah and Manu (2013) and Abanis Et al (2013). This posed a lot of difficulties to SME owners in providing adequate and accurate information on demand. According to the observation by Ihua (2009) who argues that poor financial accounting and book keeping were among the 10 most 'killers' of SMEs, book keeping alone that does not come with preparing reports is likely not to be a fundamental in helping decision making, unless proper reports

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are prepared and analyzed to attach meaning so as to help decision makers.

8. WORKING CAPITAL MANAGEMENT AMONG SMES

Though working capital has been the concern of all firms, it is rather the firms that are small that should look at the issue with some level of seriousness, since they are more susceptible to a fluctuation in their working capital level and cannot afford to undergo starvation of cash. Peel *et al.* (2000) stated that firms that are small in a way may have greater share of current assets, volatility of cash flows, less liquidity, and a large reliance on short term debts. This is to mean that, smaller firms and growing businesses efficient working capital management is an important part of survival as well as the success; that is, liquidity and profitability an (Peel and Wilson, 1996).

Since there is a limited availability of long term capital markets, firms must place their reliance heavily on self (owner) financing, short term bank loans and trade credits to finance their needed investment in inventory, account receivables and cash (Howorth and Wilson, 1998). Searches conducted in the US and the UK has proven that weak financial managements that are weak particularly working capital management and inadequacy of long term financing is the fundamental reason why small enterprises fail (Bradley and Rubach, 2002; Chittenden *et al.*, 1998). The successful challenges that are attributed to the failure or success are categorized into external and internal factors. The external factors include financing (such as the availability of attractive financing), competition, government regulations, economic circumstances, environmental factors and technology. The factors attributed to internal are internal are financial management practices, managerial skills, accounting systems and workforce.

Small enterprises are not exceptions to the social and economic environment. They are a primary part of how a society produces and organizes itself (Day, 2000; Lukacs, 2005). While the well doing of small businesses is conventionally ascribed to the a variety of managerial factors, such as working capital management may have a strong impact on small-business survival and growth, marketing, manufacturing and operations. Though working capital management has been less focused in literature than the financing decisions and long-term investment (Howorth, 1999, Peel and Wilson, 1996), however it captures a greater part of the attention of financial managers (Gitman, 2000).

Given their greater dependence on the short-term sources of finance, there is the recognition that working a capital that is efficient is critical for the growth and survival of small firms (see Grablowsky, 2000; Bradley and Rubach, 2002). A larger number of failures in businesses has been attributed to the inability of financial managers to control and plan properly the current liabilities as well as the current assets of their firms (Robbins, 1992; Ooghe, 1998). Particularly firms that are small may face serious problems as a result of the working conditions and other specific characteristics. Previous literature repeatedly point out the fact that one obstacle of small scale enterprises is the failure of operators to understand cash flow shortages. This hindrance may be attributed to the outcome of poor working capital management. Throughout the operational existence of a business, persistent unavailability of cash to cater for current obligations as they fall due is seen as an unpleasant situation which consequently leads to underperformance of a business. Sometimes, this may be worsened by the huge borrowings coming along with large interest obligation on small businesses.

According to Dodge et al., (1994), working capital management has been proven to be one of the

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major problems for firms that have recently been established and that which are at the growing stage. In a study by Peel and Wilson (1996), their findings indicated a worrying result of 18% of small enterprises failing as a result of bad financial management strategies. Interestingly in the same study's findings, banks were only willing to financially provide assistance to owners and managers who have gained some form of training on financial management or have attended relevant courses in that regard. It is therefore evident that, poor financial management could be a cause of business failure at any stage as far as the business cycle is concerned. The United Kingdom's Small Business Service Council in 2001 also revealed that lack of working capital management was a major constraint of SMEs and in fact part of the top five issues that small businesses face in the short term. In same manner, Howorth and Westhead (2003) also brought out a finding that small firms have smaller intake of working capital management practices. Timmons (1994) and others also pointed out to the fact that a number of factors including weak financial skills, strategic errors and poor management reporting as the major determinant of failure. The research conducted by Kargar and Blumenthal (1994) showed that irrespective of a healthy profits and operations a lot of enterprises fail as a result of mismanagement of working capital.

Research studies as undertaken on working capital management practices of both small and large firms in UK, India, New Zealand, Australia and Belgium using either a survey based approach to identify the push factors for the adaptation of working capital management practices by firms or econometric analysis to found out that relationship between working capital management and profitability (Anand, 2002; Deloof, 2003; Singh and Panday, 2008). Again, Hubbard (1991), Peel et al. (2000) and Drever & Armstrong (2005) have noticed that several studies on working capital management have paid huge attention to how individual assets like cash and account receivables as well as payments can be managed. Studies by Walker (1980) and Grablowsky (2000) also focus on account payable and inventory respectively. However, according to Howorth & Westhead (2003), a small number of studies recently conducted on the entire working capital management strategies used primary sources of data to bring up useful practices in working capital. Importantly, all these studies established an essential relation that existed in terms of adopting formal working capital procedures and success mechanisms. According to Deakins et al., (2011), due to the evolution of the process of financial management practices, the owner-manager approach to effectively comprehend financial management has been used by some researchers who adopted the case study approach. Also, various studies relating to working capital management have employed the mixed system or the quantitative method.

According to Horne and Wachowicz (1998) Working Capital Management is the administration of the firm's current asset and the financing needed to support current asset. They further said that for a sound working capital management, a firm needs to make two fundamental decisions. They are the determination of the optimal level of investment in current assets and the appropriate mix of short –term financing used to support this investment in current assets. Efficient working capital management involves planning and controlling current assets and current liabilities in such a manner that eliminates the risk of inability to meet due short-term obligations and avoids excessive investment in these assets (Eljelly, 2004). Efficient management of working capital, and more recently good credit management practice as being pivotal to the and performance of small of (Wilson,1996).

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Previous researchers emphasized specific aspects of working capital management. Burns and Walker (1991) examined working capital management as a whole. In their survey of working capital policy among small manufacturing firms in the USA, the following aspects of working capital were considered: working capital policy, managing working capital components, including cash, receivable, payable and inventory management, and relationships between working capital management practices and profitability without clearly handling other aspects of business efficiency. Cash management practices among SMEs was found to be inadequate in the study done by Grablowsky (1978) and Grablowsky and Lowell (1980) conducted a questionnaire survey concerned with the cash management practices of 66 small enterprises from a number of industries located in and around Norfolk, Virginia. The results showed that 67 percent of respondents replied they did not do forecasting of cash flows. When asked how they determined the level of cash to be held by the business, less than 10 percent of enterprises reported using any type of quantitative technique. Additionally, seventy-one percent of business in the Virginia survey reported that they had no short-term surpluses of cash in their recent history. Only 23 percent had a long-term surplus. Nearly 30 percent of respondents had invested excess cash in earnings securities or accounts. The most common investments were savings accounts, certificates of deposit, treasury bills, repurchase agreements, commercial papers, shares, bonds and other investments.

In the study conducted by Cooley and Pullen (1979), cash management was seen as the process of planning and controlling cash flows. It consisted of three basic components: cash forecasting practices, cash surplus investment practices and cash control practices. Cooley and Pullen (1979) examined cash management practices of 122 small businesses engaged in petroleum marketing and reported that 73 percent of respondents had experienced a cash surplus. In a divergent view to Grablowsky and Rowell's (1978) and Cooley and Pullen's (1979) survey, Murphy's (1979) study indicated 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. Regarding accounts receivable management practices, Grablowskyand Lowell (1980) found generally low standards. Approximately 95 percent of businesses that sold on credit tended to sell to anyone who wished to buy. Only 30 percent of respondents subscribed to a regular credit reporting service. Most had no credit checking procedures and guidelines, and only 52 percent enforced a late-payment charge. Thirty-four percent of businesses had no formal procedure for aging accounts receivable. Bad debts averaged 1.75 percent of sales, with a high of 10 percent in some concerns. Murphy (1978) revealed a very high level of awareness and utilization of credit control systems in the UK, even in the smallest businesses.

The previous studies done on inventory management practices, D'Amboise and Gasse (1980) studied the utilization of management techniques in small shoe and plastic manufacturing industries in Canada and found 64 percent of shoe and 65.4 percent of plastic businesses employed formal inventory control systems. While Grablowsky and Rowell (1980) found that most of the respondents had in excess of 30 percent of their capital invested in inventory, the general standard of inventory management was poor. Only six percent of businesses in their survey used a quantitative technique such as economic order quantity for optimizing inventory and 54 percent had systems which were unable to provide information on inventory turnover, reorder points, ordering costs or carrying costs. Related to the methods used to determine inventory level, Grablowsky (1984) compared methods used by a sample of 94 small

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enterprises with those used by large enterprises and found that large enterprises used methods to determine inventory levels far more than small enterprises.

The working capital meets the short-term financial requirements of a small and medium scale enterprise. It is a trading capital, not retained in the business in a particular form for longer than a year. The money invested changes form and value during the normal course of business activity. The need for maintaining an adequate working capital can hardly be questioned because the flow of funds is very necessary to maintain business. If it becomes weak, the business can hardly prosper and survive. The success of a firm depends ultimately, on its ability to generate cash receipts in excess of disbursements. The cash flow problems of many businesses are exacerbated by poor financial management and in particular the lack of planning cash requirements (Jarvis, 1996).

The management of working capital is important to the financial health of businesses of all sizes (Jarvis et al, 1996). The amounts invested in working capital are often high in proportion to the total assets employed and so it is vital that these amounts are used in an efficient and effective way. A firm can be very profitable, but if this is not translated into cash from operations within the same operating cycle, the firm would need to borrow to support its continued working capital needs. Investments in current assets are inevitable to ensure delivery of goods or services to the ultimate customers and a proper management of same should give the desired impact on either profitability or liquidity. If resources are blocked at the different stage of the supply chain, this will prolong the cash operating cycle. Although this might increase profitability (due to increase sales), it may also adversely affect the profitability if the costs tied up in working capital exceed the benefits of holding more inventory and/or granting more trade credit to customers. Another component of working capital is accounts payable, but it is different in the sense that it does not consume resources; instead it is often used as a short term source of finance. Thus it helps firms to reduce its cash operating cycle, but it has an implicit cost where discount is offered for early settlement of invoices.

Although working capital is the concern of all firms, it is the small firms that should address this issue more seriously. Given their vulnerability to a fluctuation in the level of working capital, they cannot afford to starve of cash. The study undertaken by (Peel, 2000) reveals that small firms tend to have a relatively high proportion of current assets, less liquidity, exhibit volatile cash flows, and a high reliance on short-term debt. Meanwhile the work of Howorth and Westhead (2003), suggest that small companies tend to focus on some areas of working capital management where they can expect to improve marginal returns. For small and growing small and medium scale enterprises, an efficient working capital management is a vital component of success and survival; i.e. both profitability and liquidity (Peel & Wilson, 1996). They further assert that smaller firms should adopt formal working capital management routines in order to reduce the probability of small and medium scale enterprises closure, as well as to enhance performance. The study of Grablowsky (1976) and others have showed a significant relationship between various success measures and the employment of formal working capital policies and procedures. Managing cash flow and cash conversion cycle is a critical component of overall financial management for all firms, especially those who are capital constrained and more reliant on short-term sources of finance (Walker & Petty, 1978; Deakins, 2001).

Similarly given Peel and Wilson (1996), have stressed the efficient management of working capital, and more recently good credit

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management practice as being pivotal to the performance of the small firm sector. Along the same line, Berry (2002) finds that SMEs have not developed their financial management practices to any great extent and they conclude that owner-managers should be made aware of the importance and benefits that can accrue from improved financial management practices. Narasimhan and Murty (2001) stress on the need for many industries to improve their return on capital employed (ROCE) by focusing on some critical areas such as cost containment, reducing investment in working capital and improving working capital efficiency. The study conducted by De Chazal Du Mee (1998) revealed that 60% enterprises suffer from cash flow problems. The work of Shin and Soenen (1998) and the study of Deloof (2003) have depicted a strong significant relationship between the measures of working capital management and corporate profitability. Their findings suggest that managers can increase profitability by reducing the number of day's accounts receivable and inventories are required. This is particularly important for small growing firms who need to finance increasing amounts of debtors. Teruel and Solano (2005) suggested that managers can create value by reducing their firm's number of days accounts receivable and inventories. Similarly, shortening the cash conversion cycle also improves the firm's profitability.

Also, in the Pakistani context, Nazir and Afza (2009) used panel data to investigate the relationship of working capital management and firm's profitability for the period of 1998-2005. They have extended the work of Rehman (2006) who looked into working average collection period, inventory turnover period; average payment period and cash conversion cycle as working capital management for 94 firms listed at Islamabad Stock Exchange. The authors reported that managers can create value if they adopt a conservative approach towards working capital investment and working capital financing policies in Pakistan. However, if firms adopt aggressive approach to manage the short term liabilities, investors give more value to those firms in stock markets. Similar studies on working capital and profitability includes Smith and Begemann (1997), Howorth&Westhead (2003), Eljelly (2004), Lazaridis and Tryfonidis (2006), Rehman and Nasr (2007), Afza and Nazir (2007, 2008) and Rehman et al. (2010). Van Horne (1977) also established that working capital management is the administration of current assets in the name of cash, marketable securities, receivables, and inventories.

In support Osisioma (1997) described working capital management as the regulation, adjustment, and control of the balance of current assets and current liabilities of a firm such that maturing obligations are met, and the fixed assets are properly serviced. Additionally it) demonstrate that good working capital management must ensure an acceptable relationship between the different components of a firm's working capital so as to make an efficient mix, which will guarantee capital adequacy. Thus, working capital management should ensure availability of desirable quantities management of each component of the working capital. However the question is "What determines the necessary components of a firm's working capital and how much of such components can be regarded as adequate or desirable?"

The necessary components of an organization's working capital, basically, depend on the type of business and industry. Cash, debtors, receivables, inventories, marketable securities, and redeemable futures can be recognized as the common components of organization's working capital. However, the question is to recognize the factors that determine the adequacy of working capital based on growth, size, operating cash flow, etc. The inability to understand the determining factors and measurement of

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adequate amounts of working capital will leads small and medium scale enterprises to bankruptcy.

9. ACCOUNTING INFORMATION (VALUE-RELEVANCE)

The value-relevance of accounting information refers to the situation where the information (financial statements) provided, taps and summarizes the true value of an organization. According to Ahsan &Istiaq (2008), “Value-relevance of accounting information is also affected by many firm-specific factors. To isolate the effect of corporate governance on value-relevance of accounting information, these firm specific factors need to be controlled in regression models.” Collins et al. (1997) finds these as; firm profitability, firm size, growth opportunities and firm leverage.

Value-relevance helps to determine whether information is used by investors in the valuation process and, is the empirical test for decision-usefulness of accounting information (Barth et al, 2001). This ensures that before an investor or a stakeholder uses accounting information, value-relevance is a major factor that determines which information on the financial statements is to be used in decision-making. Research on value-relevance has focused on the two primary accounting measures which are earnings and book value (Barth *et al*, 1998a; Collins *et al*, 1997; Dechow*et al*, 1999; Ohlson & Penman, 1992). The research has found that while both are value-relevant, their individual importance varies based on the state of the firm (Kothari, 2000).

The study differs from the research of Beekes and Brown (2006) in respect of the valuation of the relevance of accounting information. Beekes and Brown (2006) uses selected characteristics such as timeliness and price discovery in the valuation of an information’s relevance, whiles the study uses the relationship between accounting numbers, corporate governance measures and share prices to measure value-relevance of accounting information as a measure of quality which relates to Ohlson’s (1995) model. Research works previously done on value-relevance revealed that accounting information is free of systematic management and as such the reported quality of information is the same in firms. However, Marquardt & Wiedman (2004) established that considering accounting information quality is imperative when investigating value-relevance of accounting information.The importance of accounting and value-relevance of accounting earnings and book value has been established over long-term periods with research finding that, their explanatory power for the market values has been increasing over the past 40 years (Collins *et al*., 1997; Francis & Schipper, 1999).

10. INVENTORY MANAGEMENT PRACTICES

The success of any business organisation, particularly manufacturing, primarily relies on the inventory practices they adopt to manage their inventories. Inventory management practices (IMP) refer to the various practices of firms to ensure that inventories are kept at optimum levels to provide maximum service levels at minimum costs. They are primarily concerned with balancing demand and supply by controlling and monitoring manufacturing and purchasing orders so as to ensure uninterrupted material flow and value-adding activities. Inventory management practices ensure that manufacturing firms are able to effectively and efficiently manage their inventories. The success of any business organisation, particularly manufacturing, primarily relies on the inventory practices they adopt to manage their inventories . Inventory management practices (IMP) refer to the various practices of firms to ensure that inventories are kept at optimum levels to provide maximum service levels at minimum costs.

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Past studies have disclosed different inventory management practices of businesses to include Material Resource Planning (MRP), Material Requirement Planning (MRP), Economic Order Quantity (EOQ) and Activity Based Costing (ABC) (Elsayed, 2015; Adu-Fosu, 2016; Victorie, 2015). Some researchers have agreed that some of the practices are crucial and have been adopted by SMEs in both developed and developing economies (Schwarz, 2008; Inungu, 2011; Adekoya, 2019). Otchere AF, Adzimah ED, Aikens I. Assessing the inventory management practices in a selected company in Ghana. International Journal of Development and Sustainability. 2016. Otchere AF, Adzimah ED, Aikens I. Assessing the inventory management practices in a selected company in Ghana. International Journal of Development and Sustainability. 2016. Inventory management practices (IMP) refer to the various practices of firms to ensure that inventories are kept at optimum levels to provide maximum service levels at minimum costs . They are primarily concerned with balancing demand and supply by controlling and monitoring manufacturing and purchasing orders so as to ensure uninterrupted material flow and value-adding activities. Inventory management practices ensure that manufacturing firms are able to effectively and efficiently manage their inventories. Inventory management practices (IMP) refer to the various practices of firms to ensure that inventories are kept at optimum levels to provide maximum service levels at minimum costs. They are primarily concerned with balancing demand and supply by controlling and monitoring manufacturing and purchasing orders so as to ensure uninterrupted material flow and value-adding activities. Inventory management practices ensure that manufacturing firms are able to effectively and efficiently manage their inventories.

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11. FIXED ASSET MANAGEMENT PRACTICES

Fixed asset can also be referred to as non-current asset such as a plant, equipment and machinery or a property. It is a term used in accounting for assets or properties that cannot be converted easily into cash (Ochere, 2016). It can be compared with current assets including cash or bank accounts which are known as liquid assets. In most cases, assets that are tangible are considered as fixed assets (Khan, 2007). Additionally, a fixed or non-current asset can also be defined as an asset not directly sold to a firm's consumers or end-users. For instance a bakery's current assets may be its inventory such as flour and yeast, its value of sales owed to the business (including debtors) and cash at the bank. Its fixed assets would be the oven used to bake the bread, motor vehicles used to transport deliveries and cash registers used to handle cash payments. According to Ochere (2016), each of these fixed assets are not sold directly for the consumption of customers but are of value for the business and informs business operations. The management of these fixed assets is very critical. Fixed asset management is an accounting process that seeks to track these non-current assets for financial accounting, preventive maintenance and theft avoidance purposes (Inegbedion, 2019).

12. CHALLENGES OF EFFECTIVE FINANCIAL MANAGEMENT PRACTICES AMONG SMES

SMEs are generally faced with peculiar challenges that affect their development and thus reduce their ability to enhance national growth. The sustainable economic development objective of countries cannot be achieved when these issues are left without addressing. A lot of owners of SMEs are not well versed in managing businesses and many need some form of training to increase their capacity. Owners or managers of SMEs construct their own strategies to suit them in their management function and this may not be done in a well-structured process. As such, their management approach may lack certain appropriate frameworks and decisions leading to long term sustainability of the business, but more emphasis is on the daily operations of the entity (Hill, 1987). Again, this approach which is typical in developing economies is not strategic but more opportunistic (Hill, 1987). This characteristic is critical to the strength of businesses at the initial stage due to its creative nature but may result in the creation of problems when there is the need to make complex decisions.

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A basic consequence of inappropriate managerial capacity of managers of SMEs is that, they will not be prepared to face changes that the business environment will go through and to have a resilient plan as far as technological changes is concerned. In developing countries like Ghana, most of the owners who run SMEs are not having requisite educational background, making them ordinary in their capacity. According to King and McGrath (2002) they are not well enhanced to engage in routine managerial endeavors of their businesses. Regarding the enormous economic transformations since Ghana's independence, SMEs have encountered and still going through a wide range of problems such as difficulty in capturing large fixed costs, the absence of economies of scale and critical factors of production. Smaller firms also face the problem of higher per unit cost. According to a World Bank Study as stated in Parker Et al. (1995), about 90% of SMEs studied the major challenge to investment was accessibility to credit facilities.

Levy (1993) establishes that, in the factor market, SMEs encounter a lot of issues. Actually, cost of raw materials and their availability were the commonest challenges. Parker Et al. (1995) state that, majority of SMEs in Ghana lay emphasis on the huge cost of raw materials and this is assumed to be out of poor cash flows. In another study conducted by Aryeetey Et al (1994), it was revealed that 5% of the sample stated that inputs were a major constraint. The current turbulent business environment has made it difficult for owners of SMEs to perform suitably since they lack desired skills to run their companies sustainably. Other conditions such as attitude towards work, law and civil life as well as maintenance issues remain a challenge even when in a few cases the managers have attained some little form of education and training. King and McGrath (2002) stress that, ordinary people run SMEs. They lack some form of educational background and resultantly lacking skills to perform their roles.

SMEs must develop their market share because they usually face more external competitions. The poor population in developing countries also results in this. This is because the few people who can afford the consumption of goods and services prefer to purchase and use foreign produced commodities. SMEs therefore face intensive problems as far as price, quality, efficiency and consumer satisfaction is concerned. Trade liberalization has had effects on SMEs Riedel Et al (1998) reported that, tailors in Techiman, Ghana went several weeks without getting orders even though they previously has several works. Again, there is enormous burden on SMEs as a result of high costs to startup businesses particularly pertaining to registration requirements and licensing arrangements. This is evident in the registration procedures that state agencies present amidst the delays in legal claims at the court. These processes are seen to be very burdensome and scare SME commencements. Furthermore, there are certain legalities in clearing goods and several documentations as well as financial commitments in out ports and harbors.

Technological needs have been part of the lives of people and obviously in business operations of late (Kotler and Keller, 2006). According to Accurate and Murtaza (2008), majority of the few SMEs who have resorted to the use of ICT today have noticed the significance it presents and have committed to continue in this investment. However, technological advancements have exposed SMEs to great challenges due to their inability to attain and utilize the technological aspects of business operations. For some time now, the impacts of technological change in SMEs have gained some concern. While there are series of technological advancements today, many entrepreneurs still are not familiar with these new technologies. Well established SMEs are

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usually not aware of technologies and even if they are, their affordability and local availability become a problem.

In developing countries like Ghana, there is a challenge in connecting home grown SMEs to foreign investors whiles technological needs remain a problem (Muteti). There is again a great disparity digitally in rural and urban Ghana. This is because, power supply to rural settings remain a problem and has definitely caused impossibility in getting appropriate internet connectivity to these areas. Technological advancement that has been seen as an answer to economic difficulties therefore does not seem to influence rural SME operations in developing areas. Duan Et al buttress this point with their realization that inadequate knowledge in ICT is an issue to SMEs.

Another major constraint to SMEs in Ghana is working capital and raw material acquisition. They have limited access to capital markets. In a study by Aryeetey Et al (1994), 38% of SMEs state financial constraints as a major issue. As such, they cannot land long term funds in the form of loans from banks. According to Abor and Biekpe (2006) governments and banks in Sub-Sahara Africa do not assist SMEs financially and as such, they fail in their first year of existence. This is evident in Ghana and has hindered the entire macroeconomic performance of the Ghanaian economy.

The financial problems are dominated in the private sector and supersede all forms of constraints to SMEs development (Selvanayaki et al., 2016). They assert that, inability of SMEs to present collaterals as incentives to redeem their loans remains a problem as far as the readiness of banks to give out these loan facilities are concerned. Firms who do not have these means of collateral securities have their loan applications rejected by banks eventually. Others do not have long term investment and financial decisions at hand. This significantly portray that most SMEs do not have appropriate management structures and systems in place. This is because, there are often restrictions in administrative structures and they turn to be duplicated and bureaucratic. There are also no measures to ensure rightful lobbying. In summary, the review might not be exhaustive looking at the extensive nature of the subject but the salient aspects of this study are dealt with.

13. ACCOUNTS PAYABLE MANAGEMENT

Accounts payable, a current liability, refers to the credit, which has been extended to a business by its suppliers. The decision to make use of supplier credit needs should be carefully assessed in terms of alternative sources of finance, discounts (Winkler, 1996), credit limits, public image with respect to its credit rating, transaction costs, administrative costs, information costs, control costs, the value of the relationship with creditors, buying power of the purchasers, the credit terms, stability and general practices of suppliers, and risk factors (Gentry et al., 1990). If the availability and cost of supplier credit are better than other forms and sources of finance, then supplier credit should be used. Once this decision has been taken accounts payable management will probably investigate the extent to which it can stretch accounts payable without jeopardizing its credit status with suppliers (Raheman et al., 2010; Cheatham, 1989).

The motive for stretching accounts payable is to finance the investment in current assets from trade creditors and hence reduce the need for a level of working capital .Creditors may tolerate this practice as long as the business abides by the rules the creditor has established (Payne, 1993). The decision to stretch accounts payable is a function of ethical, legal and economic considerations (Brigham, et al. 1999). If management decides to stretch accounts payable, it must make an attempt to quantify the costs so as to determine the maximum stretching period consistent with value maximization (Kaiser

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& Young, 2009). If delaying the payments is impossible, because there is the possibility of damaging the firm's future, reputation and credit standing, (Gitman, 1997) then the cash outflows need to be carefully managed (Kaiser & Young, 2009).

14. ACCOUNTS RECEIVABLE MANAGEMENT

Accounts receivable management results from credit sales. The purpose of credit sales is to stimulate sales in order to expand market share and if possible enhance production capacity efficiency. If the benefits exceed the costs of credit sales, the business's performance should be enhanced, and should be reflected in key performance criteria such as efficiency, productivity, and return on equity (Mathuva, 2010; Brigham, et al. 1999).

The management of accounts receivable is largely determined by the business's credit policy. The investment in accounts receivable, debtors, as with all investment decisions, must earn a rate of return in excess of the required rate of return. Major risks that arise from granting credit include bad debts and debtor delinquency, because they reduce their turns from the investment in accounts receivable, and if inadequately monitored can impact severely on the business's financial performance (Mathuva, 2010; Gitman, 1997). Credit policy and collection policy have to be actively managed because they affect the timing of cash inflows, sales, profits and accounts receivable risks (Gitman, 1997). Any changes in credit and collection policy have a direct impact on the average outstanding accounts receivable balance maintained relative to a business's annual sales (Moss and Stine, 1993). Thus a business should take special efforts to monitor both credit granting and credit collection processes (Mathuva, 2010; Chang, et al. 1995).

In the normal course of business credit standards are periodically modified. Key variables that need to be considered when tightening or relaxing credit standards include the impact on sales volume, the investment in account receivable, the cost of recovering monies due, and bad debts. A relaxation of credit standards would be expected to stimulate sales volumes, and vice versa if credit standards are tightened (Gitman, 1997). The granting of more liberal terms has the potential to create a larger and less liquid investment in receivables (Moss & Stine, 1993). Unless sales increase at least proportionally to the increase in receivables, deterioration in liquidity will be reflected in lower receivables turnover and a more extended collection period (Mathuva, 2010; Richards and Laughlin, 1980).

Tightening credit standards or introducing policies to determine which customers receive credit leads to the dilemma which are classified as Type 1 and Type 2 errors. Type 1errors result when credit is issued to a customer that does not repay the debt. Type 2errors occurs when credit is denied a good customer who then buys on credit from a competitor and pays all the bills on schedule. Credit terms specify the debtor's repayment schedule and comprise issues such as the cash discount, the cash discount period, and the credit period. Any changes in these three variables may affect sales, the investment in account receivable, bad debts and profits. For example a decision to increase the cash discount should be evaluated by comparing the profit increases attributable to the added sales, the reduction in accounts receivable investment and the reduction in bad debts to the cost of the discount. On the other hand a decision to decrease the cash discount should be evaluated by comparing the profit decreases attributable to the added sales, the increase in accounts receivable investment and the increase in bad debts to the cost of the discount (Noreen et al., 2009; Gitman, 1997).

Once credit has been granted, and credit sales have been made, accounts receivable has to be collected. The goal of collection management's

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goal is to ensure that payments are received according to schedule, otherwise a greater investment in accounts receivable will be needed. If receipts from accounts receivable can be speeded up, without prejudicing sales or customer goodwill, less capital will be needed to fund accounts receivable, and less money will be spent on recovery, because of administration ,investigation, collection and bad debt costs (Noreen et al., 2009; Chang, et al. 1995).

In order to achieve satisfactory performance by debtors, several tactics have been suggested. These include adding finance charges for late payment (Cheatham, 1989),providing incentives for early payment, shortening the credit period contractually, or trading only for cash, discounting or factoring accounts receivable to speed up the cash inflows, outsourcing accounts receivable (Herridge,1996), analyzing payment patterns (Mooney and Pittman, 1996), using the Markov Chain Analysis, ad hoc scoring, simple probability, linear discriminate and sequential decision system, monitoring days sales outstanding and aging schedules, using balance fractions, payment proportions and variance analysis (Kallinger & Parkinson, 1984). These tactics need to be implemented carefully otherwise sales volumes could be negatively affected (Noreen et al., 2009; Gitman, 1997).

15. RELEVANCE OF SMES SECTOR

Literature has made it almost undisputed that SMEs are very significant in the socio-economic development of Ghana and many developing countries like Ghana in Africa. On the African continent, the policy agenda of most countries has therefore targeted the expansion of this sector of which it is largely recognized by all stakeholders. Undoubtedly, SMEs constitute the seed-bed for the success of most entrepreneurs in Africa. SMEs constitute a true backbone of the African economy. SMEs are the true backbone of the African economy. They are primary responsible for economic growth. SMEs play significant roles towards national advancement and national innovativeness. Ultimately, the national advancement role of SMEs makes them drivers of employment and job creation, making them essential in terms of the entrepreneurial environment. In both rural and urban economies, policy efforts are being made to sustainably improve small and medium scale businesses as a way of accelerating economic growth rate in countries like Ghana. This is because these enterprises have constantly been noted as the engine through which development of countries in the middle income category can be attained. According to Aryeetey (2001), the majority of urban labour force in developing countries is employed by the SMEs sector whiles Daniels (2014) in a study estimated that 22% of adults in a lot of developing nations are absorbed by this sector.

16. EMPIRICAL REVIEW

In a study by Globlowsky in 2008 as well as Globlowsky & Lowel in 2011 using a questionnaire survey concerning cash management practices of 66 small enterprises from industries located in and around Norfolk, Virginia found that few enterprises (less than 10%) revealed employing quantitative practices in determining the amount of cash that businesses must hold. Adding to it 71 percent of the businesses reported that they had no short term surpluses of cash in their recent history. 23 of the enterprises also had a long term surplus whiles nearly 30 percent of the respondents had their excess cash invested in earning securities or accounts. The most predominant investment were savings account, treasury bills, certificate of deposit, commercial paper, repurchase agreement, bonds, shares and other investments.

Joshi (2000) brought out that the fundamental objective of investing in trade debtor is for profit to increase through the expansion of sales so as to pull new customers and maintain the old ones. By the constant increase of profit and sales,

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businesses carve out a greater niche in the market and rises up its status within competitors. Joshi came to a realization that receivables are made up of the credit businesses give to their customers when making sales of goods and services which assumes the form of trade credit which are extended to other companies or consumer credit, and which is extended to consumers by the company. The effectiveness of a company's credit policies can have a significant impact on its total performance.

Globlowsky (1976) and Rblowsky and Lowel (1980) also found that there is generally low standards of account receivable management practices among businesses. In their study 95% of the businesses that sold on credit tend to sell to anyone who wishes to buy. 30 percent on the other hand subscribed to a regular credit reporting service. Most of the businesses had no credit checking procedure and guidelines. 52 of the businesses however enforced late payment charges whiles 34 percent had no formal procedure for aging account receivable. An average of bad debt of 1.75 percent of sales with a high of 10 percent in some businesses was recorded.

Clodfelter (2003) stated that good inventory control systems bring about the benefits of proper relationship between sales and inventory and can be better well maintained. When inventory controls are not put in place, the store or department can become overstocked or under stocked. However, the keeping of a lower inventory level may result into loss of sales and stock-out (Deloof, 2003). In a study by D'Ambise and Gasse (1980) on utilization of management techniques in small shoe and plastic manufacturing industries in Canada found that 64% of shoe and 65.4% of plastic businesses employed formal inventory control systems. In this study the general standard of managing inventory was poor, thus only 6 percent of businesses used a quantitative technique such as economic order quantity for optimizing inventory whiles 54 percent had systems that did not provide information on inventory turnover, reorder point, ordering cost or carrying costs.

Blocks (2007) surveyed 232 small businesses in the United States of America and showed that payback period method remains the most prevalent of investment selection of for small businesses. Big companies on the other hand greatly fused in discounted cash flow frameworks in analyzing their finances in terms of capital investment proposal (Proctor and Canada, 1992). Fifty-one (51) percent of the respondents used payback period to evaluate capital projects whiles 30 percent report of the adoption of some variation of accounting rate of returns. 10 percent on other hand reported the use of cash flow methods as net present value and internal rate of returns.

Ssenaula (2002) in a study listed the factors that discourage financial institutions from giving out funds to SMEs. Some of these reasons include poor records of their accounts due to inappropriate compilation, outdated technology, inadequate level of managerial skills, improper professionalism and networking as well as low quality and non-standardized products leading to inadequate market outlets. Other factors include lack of collateral, limited ideas on available business opportunities and poor linkages. A lot of the businesses such as those dealing in food stuffs have been affected by lack of proper facilities for storage purposes. This is one of the major limitations as far as the success of businesses is concerned since most agricultural products need preservation and their demand is inelastic.

D'Amboise and Gase (1980) in a study on how to utilize formal management systems in SMEs in Quebec, Canada revealed that a significant percentage (88%) of business entities make use of the cost accounting system. In terms of accounting standards, another study by

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DeThomas and Fredenberger (2011), where 360 small businesses were involved in Georgia concluded that financial record keeping was very high among these businesses. Adding to cheque and deposit receipts, around 92% of the businesses had some form of record keeping. With regards to financial information the same research showed that 96 percent of the respondents prepared financial statements. The task on the usage of information was within the business itself and 4 percent relied on an outside account services.

Farhoodman and Hryck (2009) reported in a study on the importance of computer application in businesses among 69 small businesses in the USA. There was the indication that the use of accounting applications had the highest percentage. In a similar study by Palmer (1994), it was revealed that among 36 small independent retail owner-managers, 33% of the study population applied the use of computer accounting information systems in their work. Through these reviews, it can be concluded that the use of computerized accounting information systems in SMEs is dominant in North America starting from the 1980's and 1990's.

Sanda, Sackey & Fältholm, (2011) also concluded in a study that about 79% of SMEs frequently gained a summary of their financial information. Out of this, 91% was in the form of conventional financial statements such as balance sheets, statements on profit and loss and fund statements. The remaining ones were bank reconciliation statements and operating summaries whiles none of the businesses whereas receiving regular information in the aspect of cash flows. The work also established that 61% of the interviewees felt financial statements provided the information they want for planning and decision making. Eleven (11) percent on the other hand indicated that they had useful financial statement information formally as part of managerial evaluation, planning and decision making. 2 percent of the businesses made a utilization of financial ratios, and few made even simple historical comparison.

17. SMALL AND MEDIUM SCALE ENTERPRISES IN SUNYANI MUNICIPALITY

The Sunyani Municipality has an enabling environment for businesses to thrive and SMEs are not exceptional. It is the regional capital of the Bono Region of Ghana, formerly the Brong Ahafo Region and this has attracted numerous SMEs operating in all sectors of the economy. The Municipal Assembly depends heavily on these SME for its tax collection for development. In spite of these aforementioned benefits, SMEs in the Municipality are confronted with numerous challenges in relation to financial management. Therefore, this study seeks to investigate the financial management practices adopted by SMEs in the Sunyani Municipality and their significance in the profitability of SMEs. The next section of the study would cover the presentation and analysis of data collected through questionnaires and interviews.

18. CONCLUSION

Within the context of a theoretical and an empirical literature review, this research covered the relevant literature relating to various financial management strategies. The research approach that was used to the study is going to be discussed in the next chapter. In this examination, broad ideas such as management of working capital, management of inventories, management of financial reporting, management of accounting information, and management of fixed assets were examined. The deficiencies that were found were based on the degree to which applicable financial management methods were used, which is why this research was carried out in the first place.

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