



Short-Term Financial Management Practices and SME Performance in Ghana: A Case Study of Effutu Municipality

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Abstract

The study sought to examine the effect of Cash Management (CASH), Inventory Management (INV), Receivables Management (REC), and Payables Management (PAY) Practices on the Performance (PERF) of SMEs in the Effutu municipality. The inquiry used an explanatory design and quantitative approach. By employing a purposive sampling technique to draw 130 SMEs and a Partial Least Squares-Structural Equation Modelling approach, the results indicated that all the short-term financial management practices had positive and significant effects on the performance of SMEs. The findings imply that ensuring sound short-term financial management practices could improve SMEs' performance. The paper recommends that SME managers negotiate for payables days longer than REC days. The government is implored to institute tax incentives and soft loan schemes to encourage SME growth. The study brings new insight into the discussion on WCM practices and their effect on SMEs' performance using primary data and non-accounting base measures.

Subject Areas

Corporate Governance

Keywords

Cash Management, SMEs Performance, Working Capital, Working Capital Management

1. Introduction

Cash management refers to all strategies that are adopted by firms to manage

their daily cash transactions, it is normally a short-term strategy whilst financial management refers to the practices and the strategies employed by enterprises to manage both their receipt and payment, source for funds to finance strategic projects [1] [2]. Corporate finance decisions are either long-term or short-term decisions. Long-term financial decisions primarily deal with such topics as capital budgeting and capital structure. In contrast, short-term decisions relate to liquidity, especially working capital management (WCM), which focuses on the composition of a firm's current assets and current liabilities [3]. Efficient working capital management is fundamental to business success [2] [4] as it helps a firm maintain its solvency, reduce the risk of financial distress, and is critical for a firm's long-term survival [5]. Working capital management is even more important in developing and emerging economies like Ghana, where the unstable conditions of the financial markets and the uncertainties linked to the economic situation lead to severe turbulence and general price instability [1]. It was contended that many business failures result from poor or careless working capital management. Therefore, it was imperative to manage the short-term funds of the business with the utmost care [6] as cited in [7]. [8] state that improper working capital management is the primary reason for small business failures in the UK and the USA.

Businesses across the globe have suffered dire economic menace amid global economic crises, leading to the collapse of many [9]. The situation is exacerbated in developing economies like Ghana due to their vulnerability to global shocks. Due to global shocks and other governance deficiencies, Ghana's macroeconomic indicators have been worse. Thus, weak currencies, all-time high inflation, skyrocketed interest rates, rise in unemployment, slow GDP growth, 93.5 percent debt to GDP ratio, among others [10]. It was posited that approximately 75% of enterprises in Ghana fail during the first three years, while those that survive the first three years do not continue beyond ten years [11]. The performance of Ghana's SME sector has not been encouraging as far as its role in fostering the country's economic growth and development is concerned. It has been argued that SMEs' inability to acquire financing hampers their ability to invest, innovate and grow [12] [13]. This has been the bane of Ghana's SME sector [14] as the sector faces a US\$ 6.1 billion funding gap [15]. Due to the persistent collapse of the SMEs, the government, over the years, has instituted several intervention programmes, including National Entrepreneurship and Innovation Programme (NEIP), aimed primarily at providing integrated national support for start-ups and small businesses. Despite these interventions, the situation persists.

The uncertainties the country is battling with due to the global shocks that have crushed investor confidence in the economy have worsened the case for the SME sector as banks are reluctant to advance credit to this sector owing to the perceived high risk ascribed to the sector. The fallout of the staff-level agreement between Ghana and the International Monetary Fund (IMF) amid its economic downturn was to freeze employment for the time being, as evident in its 2023

budget statement Ministry of Finance (MoF) [16], which has security implications. A worsening unemployment growth is evident. This has necessitated ensuring a robust and well-functioning private sector, especially the SME sector, to help curb the rising unemployment situation and its associated implications. The clarion call for the need to ensure a well-functioning SME sector is justifiable as the sector has been touted as a catalyst for enhancing employment and the standard of living of the citizenry, which results in poverty reduction [14]. Again, SMEs constitute about 90% of African registered businesses, employing more than 80% of the workforce and contributing more than 70% to GDP [17].

Efficient working capital management has been proffered as a powerful tool in turning the fortunes of businesses as it helps them to maintain their solvency, reduce the risk of financial distress, and is critical for their long-term survival [11]. Once firms are able to manage their receivables well by instituting and implementing effective credit policies, inventories by making prudent inventory decisions, and payables by regularly meeting their pressing obligations with their creditors, they may get access to short-term funding in the form of pre-financing and trade credit due to their enhanced credibility.

An appreciable level of research effort is evident as far as working capital management's role in organisational performance is concerned [14] [17]-[20] [21]-[28]. For instance, whereas [28] [29] found no significant relationship between working capital management and performance, [30] found a positive and significant relationship between working capital management and firm performance. However, [29], whose study centred on South African SMEs, found a negative relationship between working capital management and firm performance. In general, most of these studies used accounting ratios (*i.e.*, inventory conversion period, receivables collection period, payables payment period and cash conversion cycles) in assessing the effectiveness of working capital management. However, the researchers could not find any known study that assesses the various working capital management practices (*i.e.*, inventory management practices, receivables management practices, payables management practices and cash management practices) and their impact on firm performance as contained in this study.

Against these backgrounds, this study seeks to assess the effect of working capital management on the performance of SMEs in Effutu Municipality using working capital management practices. The study's findings will provide evidence of how critical effectively managed working capital is in improving their performance. The findings of this study will provide better ways of effectively managing their working capital to enhance their performance, enriching their resolve to contribute meaningfully to the country's socio-economic development in this critical time.

2. Literature Review

2.1. Theoretical Review

Theory of Working Capital Management

Investment in different items of current assets needed for the business, which are inventories, receivables, payables, cash and other current assets like loans and advances and measures put in place to manage them revolves around working capital management [31] [32]. The effective management of these kinds of assets aids in the smooth operation of organisations and is of much more concern to SMEs than corporations and promotes the proper utilisation of fixed assets [33]. In theory, net working capital is the difference between current assets and current liabilities, whereas gross working capital is the sum of all current assets [34]. A myriad of factors, such as credit policy, price level changes, the nature of the business and supply conditions, usually affect working capital. The effectiveness and appropriateness of measures instituted to manage current assets significantly affect how these assets influence organisational performance. The discussed framework gives detailed insight into the topic under discussion since its propositions concentrate on the factors that form a firm's working capital. Studies [35]-[37] used this theory in their study of working capital management.

Risk Management Control Theory

The risk management framework has it that risk management centres on the logical development and putting into practice a formulated plan that serves as a blueprint to guide protection against probable losses in an organisation [38]-[40]. The theory urges companies to put in place risk management programs to help in the management of their exposure to risk and guard their assets [41]. Internal control and governance measures have been re-invented in terms of capability for effective risk management, encapsulated with standards and guidelines that provide legitimised templates for organisations to represent and account for themselves and control and govern [42]. The level of working capital maintained by firms is essential for mitigating obligations arising and liquidity shortfalls, hence the risk management control theory put forward that a clear guideline should be developed to identify, analyse, monitor and mitigate risk [43] [45]. Since the propositions of the risk management framework centre on managing a firm's resources, including inventory, payables, receivables, and cash, it relates to the current topic under discussion. Studies see [43]-[45] applied the risk management control theory in their studies of working capital.

2.2. Empirical Review

To scrutinise the association between working capital management and the performance of small-scale firms in Ghana, panel secondary data from thirteen listed manufacturing firms on the Ghana stock exchange from 2005 to 2009 was used. The study found a negative relationship between account receivable management and performance [21]. Notwithstanding, Cash management has a significant positive relationship with firm performance. The negative relationship between accounts receivable and performance confirms the findings of [46] [47]; Nonetheless, the same finding contradicts the positive relationship found by [20].

Similarly, to analyse the effect of financial management practices on the per-

formance of businesses in Obuasi municipality in Ghana, a study sampled 99 enterprises. Findings were that working capital and capital budgeting are significantly positive and negative predictors of firm performance [23].

[48] using OLS regression, discovered an inverse association between cash management, accounts receivable and profitability of SMEs. However, a positive relationship was found between days of inventory, accounts payable and firms' profitability. These findings are consistent with [19] results.

Similarly, a study using 98 SMEs listed in Iran for six years examined the association between working capital management practices and SME performance. Results revealed an inverse association between all the measures of working capital management and performance [49]. This result confirms the finding of [20], whose study discovered a negative relationship between accounts receivable, cash conversion cycle and profitability of firms. Nevertheless, the same result contradicts the posit that a positive relationship exists between inventory day, accounts payable and performance as put forward by [30] [48]. The factuality of the study's findings may not represent the reality on the ground due to the short period for the considered data.

[29] examined the connection between working capital management and SMEs performance using a ten-year period data ascertained from listed firms in South Africa and analysed through GMM. Results indicated a negative relationship between the average receivable period, inventory conversion period and performance. These findings are consistent with the result of [44] [46], who found a negative relationship between the account receivable period and the performance of SMEs. Meanwhile, [47]-[49] also discovered a negative relationship between cash conversion and performance. On the contrary, the negative relationship deviated from the result of [21], whose study ascertained a positive significant relationship between the cash conversion cycle and performance. Again, the study revealed a positive relationship between the average payment period and firm performance [29]. This finding debunks the result of [32] [48] [49] [50], who ascertained a negative association between accounts payable and the performance of SMEs. The study used a short data span which can lead to skewness in its results.

Contrastingly, an investigation into the impact of working capital management on the performance of SMEs in Ghana, [51] used a sample of 366 SMEs for a data period of 10 years. Using GMM, a positive association was detected between the trade payable period and SMEs performance in Ghana. The positive association affirms the account of [29], who also ascertained a positive relationship between the accounts receivable period and the performance of SMEs. Conversely, the result refutes [49] findings, whose study discovered an inverse nexus between account payable and SME performance. The test revealed an inverted U-shape linkage between account receivable and performance.

This finding supports the result of [26], whose study revealed an inverted U-shape relationship between trade receivables and performance. Nonetheless, the result deviates from the findings of [20] [21] [29] [49], who discovered a negative relationship between the account receivable and the performance of

SMEs. Just as [29], whose study considered a short data span, this study also used the same data period, making its results somewhat questionable.

Conversely, the negative relationship put forward by [52] is opposed by [17]'s study, which found a concave relationship between working capital and performance. [26] [46] [47] found a U-shaped relationship. On the contrary, the negative, U-shape and the concave account refute [20] argument, whose study on SMEs in the Kumasi metropolis of Ghana discovered a positive relationship. Again, [19] also supports the positive relationship.

Similarly, an inquiry into the effect of working capital management on the performance of 13 listed manufacturing firms in Ghana with panel data from 2010 to 2019 by [53] used descriptive measures as well as inferential analysis. Findings showed a negative relationship between the inventory period and firms' profitability. This result agrees with the finding of (Godswill *et al.*, 2018; [50]), whose investigation revealed a negative relationship between inventory period and profitability. The average receivable period showed a significant inverse connection with firm performance [53].

The negative relationship agrees with [20] [29] [46] [49] [54], who alluded that an inverse relationship exists between accounts receivable period and performance of firms. Notwithstanding, the negative association opposes the positive relationship argument, as [21] put forward. Again, [53] found an inverse association between accounts payable and firm performance. This result disagrees with the positive relationship between the accounts payable and the performance of the enterprise [48].

2.3. Hypothesis Development

A review of the empirical studies has provided diverse results on the relationship between cash management and the performance of SMEs in different jurisdictions. For instance, [48] [49] provided evidence that a negative relationship exists between cash management and profitability as a performance measure. Again, the cash conversion cycle negatively affects the profitability of SMEs [48]. Notwithstanding, the account of [21] documented that SMEs' cash conversion cycle positively influences these firms' profitability. Based on this exegesis, the current study hypothesizes that:

H₁: *Effective cash management has a positive relationship with the performance of SMEs.*

Inventory refers to stock kept by firms for direct sales or further processing into finished and semi-finished goods. Different firms with different sizes deal with myriad kinds of inventories. Literature asserts that inventory management has a negative relationship with firm profitability [48] [49] [53]. These authors justified that pursuing aggressive working capital management with a concentration on inventory management negatively affects SMEs' performance. On the contrary, [48] documented a positive relationship between inventory management and firms' profitability. Based on the above exegesis, the current study hypothesis is as follows:

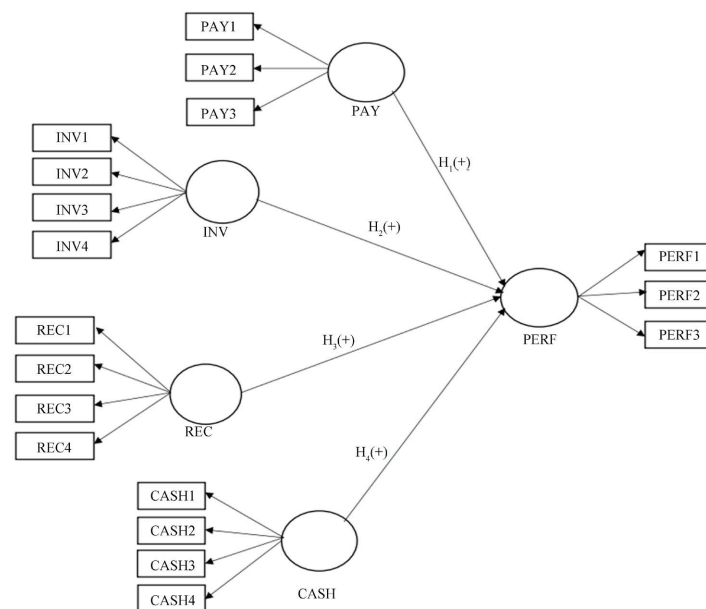
H₂: Effective *Inventory Management* has a positive effect on the performance of SMEs.

Effective receivables management system is one that ensure early recovery of credit sales within the shortest possible time say 21 days [53]. According to literature, accounts receivable enhance profitability and consequently affect small-scale firms' performance positively [21] [51]. However, this submission is refuted by existing studies who found a negative relationship [20] [46] [48] [49]. Again, this negative relationship was affirmed by the study of [29] [53], whose investigation revealed an inverse relationship between accounts receivable and the performance of SMEs. It is worthy of note that the shorter receivables period reflects effective receivables management. In another dimension, [26] documented a U-shape relationship between accounts receivable and profitability. Based on this empirical exposition, the current study hypothesis is that:

H₃: Effective *receivables management* has a positive effect on the performance of SMEs.

Effective payables management is running a payable system that does not repay creditors quickly, pay creditors leaving enough cash reserve. According to a scholarly apprehension, a positive association exists between accounts payable and the profitability of SMEs. The account has it that efficient control of accounts payable would spur SMEs for better performance [29] [48] [51]. This positive relationship is contended by the argument put forward by [49] [53] [55] that trade payable inversely impacts the profitability of SMEs. Based on this evidence, the current study hypothesis is that:

H₄: Effective *payables management* has a positive effect on the firm performance of SMEs.



Source: Authors' construct (2023).

Figure 1. Conceptual framework.

The assumed interconnection between the various exogenous and endogenous variables is depicted in **Figure 1**.

3. Data and Methods

This study employed the quantitative approach in analysing and achieving the research objectives. Quantitative research is a research strategy that emphasises quantification in data collection and analysis [56] quantitative research methods encompass survey modelling and statistical analysis [57]. By extension, the study is grounded on the positivist philosophy since the researcher objectively used questionnaires to gather information from SMEs to make meaningful conclusions and inferences without giving room for external or internal human manipulation [58]. Again, the study adopted an explanatory research design. This design is most appropriate in this context since the study's focus is to ascertain the impact of short-term financial management practices on SMEs performance, an evidence of cause-effect analysis, which is the purpose of explanatory research design as supported [59].

Primary data on working capital management practices and performance indicators was obtained from a sample of 130 SMEs owners/managers using a closed-ended questionnaire, a sample drawn from an accessible population of 184 SMEs in the Effutu Municipality (Records Division, Business Enterprises Programme Unit (RDBEP) [60]. The sample size was determined using Yamane's (1973) sample size determination formula. This sample size is sufficient for the analysis according to [59], who accentuated that a sample size of between 10% and 30% is a good representation of the target population, hence 70.7% of the study's population was appropriate for the study. The choice of Effutu municipal is justified on the basis that the municipality has experienced an extravagant surge in population due to the presence of the university of education, Winneba and this has led to the springing up of several SMEs dealing in different lines of products [60].

The study adopted the four dimensions of working capital management practices, such as inventory management, receivables management, payables management and cash management, as the short-term financial management practices. The inventory management construct was adopted by [61], who identified three dimensions of inventory management such as reorder point activities (INV1), inventory control (INV2) and supplier monitoring (INV3). Again, the receivables management construct was defined in four dimensions such as credit standards (REC1), credit period (REC2), discounts (REC3) and collection policy (REC4), as espoused by [61]. Further, the cash management construct was developed using the four dimensions of cash management proposed by [62]: cash planning, managing cash flows, optimum cash levels and investing surplus cash. Payables management also took three dimensions, such as the selection of cooperating suppliers (PAY1), meeting credit deadlines (PAY2) and effective negotiation with creditors (PAY3). This was developed based on an extensive literature review on payables management [63] [64]. Profit margin (PERF1), sales growth

(PER2) and customer satisfaction (PER3) were used as indicators of performance [61].

This study employed the Partial Least Square-Structural Equations Model approach in its data analysis. In effect, the measurement model and structural model were assessed. In assessing the measurement model, assessments such as indicator reliability, internal consistency reliability, convergent validity and discriminant validity were executed in accordance with recommendations [65]. In this study, whereas indicator loadings were used to assess the indicator reliability, Cronbach's Alpha and Composite Reliability coefficients were used to assess the internal consistency reliability. Again, whereas average variance extracted (AVE) was used to assess the convergent validity of the constructs, the Fornell-Larcker Criterion [66] and Heterotrait-Monotrait (HTMT) Criteria [67] were used to assess the discriminant validity of the reflective model. Additionally, the structural model was assessed from dimensions such as the test of collinearity [68], significance and relevance of structural model relationships [69], model's explanatory power [70] and model's predictive power [71]. The collinearity test was executed with the aid of the variance inflation factor (VIF) [71]. Also, the significance and relevance of the structural model relationship were assessed using path coefficients, t-values, p-values and f^2 (effect size). Further, R^2 and R^2 adjusted were used to assess the reflective model's explanatory power as RMSE (root-mean-square-error) and MAE (mean absolute error) values were compared with a naïve linear regression model (LM) benchmark to assess the model's predictive power. The model fit was assessed by employing tests such as Standardized Root Mean Square Residual (SRMR) [67], Normed fit index (NFI) [72] and Chi-square values [73]. The importance-performance map was also used to assess the robustness of the model.

4. Assessment of Measurement Model

In this section, four steps were followed in assessing the measurement model [74]. These steps include assessment of indicator reliability, internal consistency reliability, convergent validity, and discriminant validity.

Per the results in **Table 1**, which shows the reliability of the various indicators used to measure a construct, all the indicators loaded satisfactorily with at least a coefficient of more than 0.7 except only three indicators with a reliability coefficient of less than 0.7. According to [65], an indicator's default value should be at least 0.7, and our result satisfies this condition since CR and CA loadings are all more than 0.7. Again, the various indicators combined to measure the constructs were all effective based on the Composite Reliability (CR) values of greater than 0.7, the constructs were also consistent and durable, premised on the consistency values of more than 0.7 [65]. Per **Table 3**, most of the AVE were more than the 0.6 thresholds signifying that the constructs are convergently valid since most unseen variables possess AVE values greater than 0.5 and the product has higher volatility [66].

Table 1. Indicator reliability, construct reliability and convergent validity.

Construct/Associated indicators	Loadings	CA	CR	AVE
Inventory Management		0.770	0.848	0.593
INV1	0.909			
INV2	0.896			
INV3	0.694			
INV4	0.512			
Receivables Management		0.806	0.873	0.632
REC1	0.814			
REC2	0.855			
REC3	0.736			
REC4	0.771			
Payables Management		0.755	0.830	0.622
PAY1	0.891			
PAY2	0.665			
PAY3	0.794			
Cash Management		0.734	0.833	0.561
CASH1	0.828			
CASH2	0.835			
CASH3	0.560			
CASH4	0.739			
Performance		0.783	0.874	0.698
PERF1	0.796			
PERF2	0.825			
PERF3	0.883			

Discriminant validity is used to measure a construct's distinctiveness [65]. The results presented in **Table 2** show the discriminant validity through the HTMT with a cut-off margin of 0.85 [65], a cut-off margin of less than 0.9 as advocated by [67], and a cut-off threshold of less than 1 [75]. Since all the HTMT values are less than 0.85, our constructs are regarded as very distinctive, and the variables are significantly different from each other and without any collinearity. This assertion is confirmed by the Fornell-Larcker criterion, which posits that for a construct to achieve an acceptable discriminant validity, the square root of the AVE of a construct should be greater than the correlation between the construct and any other construct in the model [65] [66].

Table 2. Assessment of discriminant validity.

	Fornell-Larcker Criterion					Heterotrait-Monotrait (HTMT Criterion)				
	PERF	INV	REC	PAY	CASH	PERF	INV	REC	PAY	CASH
PERF	0.835					-				
INV	0.625	0.770				0.533	-			

Continued

REC	0.599	0.655	0.795			0.422	0.536	-	
PAY	0.521	0.488	0.388	0.789		0.691	0.621	0.544	-
CASH	0.644	0.244	0.434	0.366	0.749	0.366	0.452	0.399	0.633

Note: The figures in bold represent the square root of the Average Variance Extracted (AVE).

5. Assessment of Structural Model Altaf

This section involves assessing the structural model, including multicollinearity, the model's explanatory power, the model's predictive power, the significance and relevance of path coefficients, and the model fit and robustness test.

5.1. Assessment of Model Predictive Power

The predicting power of the various indicators and the constructs that represent the exogenous variables were assessed using the Q-predict with the result presented in **Table 3**. Studies have it that for a model to exhibit predictive power, the Q² values of the indicators for the exogenous variable should be above the most naive threshold of 0 [65] [75]. Since the Q² predict values are greater than 0, the model possesses strong predictive power. To measure the error carried by PLS-SEM analysis, PLS-SEM_RMSE values must be compared with LM_RMSE values that predict the assessed variables with the criterion that errors in the PLS estimation should be less than the errors in linear regression estimation [65]. Comparing the PLS SEM_RMSE, MAE results with the most naive LM_RMSE, MAE threshold shows that all the indicators for the exogenous variable have lower RMSE or MAE prediction error. This means the model exhibits strong prediction power with the PLS_SEM having the best predicting ability.

Table 3. Model's predictive power.

	Q2predict	PLS_SEM_RMSE	LM_RMSE	PLS_SEM_MAE	LM_MAE
PERF1	0.531	0.886	0.908	0.703	0.710
PERF2	0.463	0.841	0.855	0.632	0.652
PERF3	0.582	0.773	0.805	0.607	0.645

5.2. Assessment of Model Fitness

For a model to be declared fit, the Standardized Root Mean Square Residual (SRMSR) should fall below 0.08, the Normed Fit Index should also be closer to 1.0 [67] [72]. According to the results presented in **Table 4**, the SRMR values for both saturated and estimated models are less than the 0.08 margin, and the NFI value of 0.86 is close to 1.0. Based on these criteria, the model is declared fit with negligible aberration from the actual and expected correlations. According to [73]), for a model to be deemed fit, its chi-square value ascertained by dividing the estimated value by the degree of freedom should fall below 3. Per this measure, the model's fitness is confirmed based on the Chi-square assessment crite-

rion value of 2.666, which is less than the threshold of 3.

Table 4. Model fit summary.

	Saturated Model	Estimated Model
SRMR	0.035	0.035
d_ULS	0.889	0.889
d_G	0.83	0.83
Chi-square	335.233	335.233
NFI	0.863	0.863

Note: SRMR and NFI represent Standardized Root Mean Square Residual and Normed Fit Index.

5.3. Structural Model Summary

The study assesses the effect of the various exogenous variables Inventory management (INV), Receivables management (REC), Payables management (PAY), and Cash management (CASH) on the endogenous variable Performance (PERF). The exogenous variables together explained a total of 77% variation in the performance. This is considered acceptable since it is more than the 70% threshold. Per Cohen's f statistics, the effect exhibited by the exogenous variables was insignificant, as indicated in **Table 5**. An absence of multicollinearity was evident in **Table 5** owing to the fact that the highest VIF value of 4.9 is still below the threshold of 5 [65] and way below the threshold of 10 [76]. This confirms the distinctiveness of the variables as established by the discriminant validity. The closer the Q^2 predict values to the adjusted R^2 and being positive indicates that the PLS_SEM model possesses relevant predictive power. The PLS_SEM path coefficient and significance, including the factor loadings, are presented in **Figure 2**. The diagram shows that almost all the factors loaded satisfactorily with coefficients greater than the threshold of 0.7 except only three indicators. The RMSE and MAE of the prediction were below 0.5, confirming that the estimation is of high accuracy of the model.

Per **Figure 2**, the first hypothesis (H_1) is accepted since the test produced a significant and positive coefficient of 0.298. This leads to the conclusion that implementing prudent cash management practices improves SMEs' performance by 0.298 magnitude in the Effutu municipality. In H_2 , the study discovered that there is a positive effect of inventory management on the performance of SMEs. It can be inferred that good inventory practices are needed to improve better organisational performance in the Effutu municipality.

Again, the next hypothesis that a positive relationship exists between REC and PERF of SMEs is accepted based on the positive coefficient of 0.26. The acceptance of the H_3 shows that improvement in receivable practices causes 0.26 units enhancement in performance. The final hypothesis recorded a coefficient of 0.192. This leads to the acceptance of the H_4 and concludes that a positive relationship exists between payables management and the performance of SMEs in

the Effutu municipality. This shows that a unit improvement in the payables practices translates to a 0.192 unit rise in the performance of SMEs.

Table 5. Summary of the structural model.

	Original sample(O)	Sample mean(M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values	F2	VIF	Decision Rule
H ₁ : INV→PERF	0.211	0.211	0.089	2.371	0.018	0.046	4.366	Supported
H ₂ : REC→PERF	0.260	0.260	0.070	3.694	0.000	0.113	2.675	Supported
H ₃ : PAY→PERF	0.192	0.192	0.082	2.333	0.020	0.045	3.700	Supported
H ₄ : CASH→PERF	0.298	0.299	0.082	3.650	0.000	0.080	4.998	Supported
Endogenous Variable	R2	Adjusted R2	Q2predict	RMSE	MAE			
PERF	0.777	0.770	0.759	0.498	0.409			

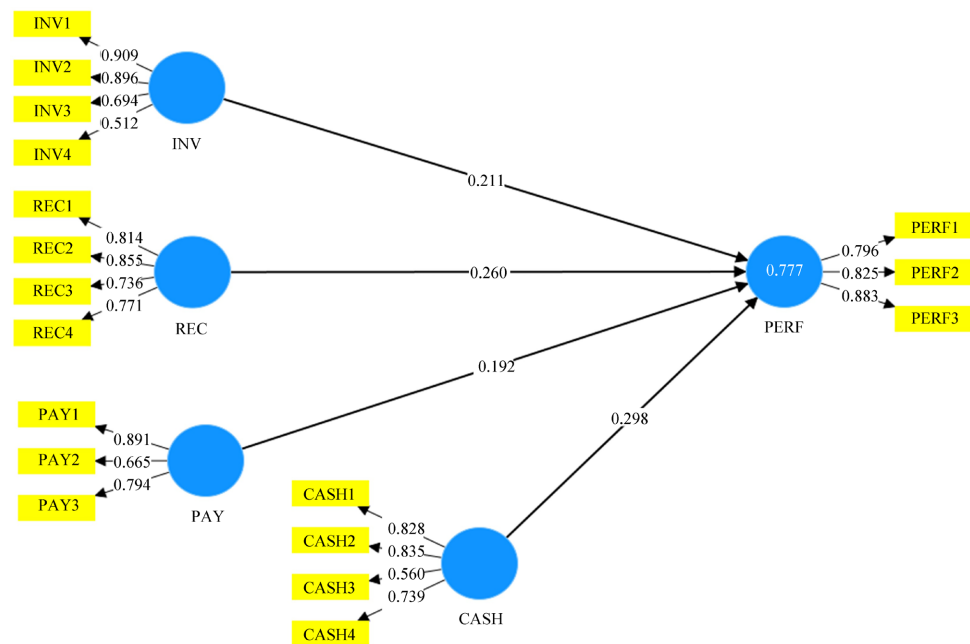


Figure 2. Structural path coefficients and bootstrapping.

5.4. Robustness

The research relied on the Important-Performance Map (IPM) to judge the most critical working capital management activity that can significantly enhance SMEs’ performance. The IPM for the various exogenous variables is presented in **Figure 3**. **Figure 3** reveals that cash management is the most critical working capital management practice that contributes significantly to the performance of SMEs. To the expectation of the study, the more funds available to SMEs with prudent cash management, the more they can invest strategically in their operations. Inventory is the second most important working capital management practice that contributes significantly to SMEs’ performance. This is also an ex-

pectation of the study since the strategic decision to invest in inventory would increase the profit of SMEs. To the surprise of the study, the last critical factor identified by the IPM as contributing least to the performance of SMEs is receivables. This is surprising because inappropriate pegging of receivable days can plunge a firm into a financial crunch. It can be inferred that much attention toward improving the factors of working capital management for better performance of SMEs should be given to cash management practices.

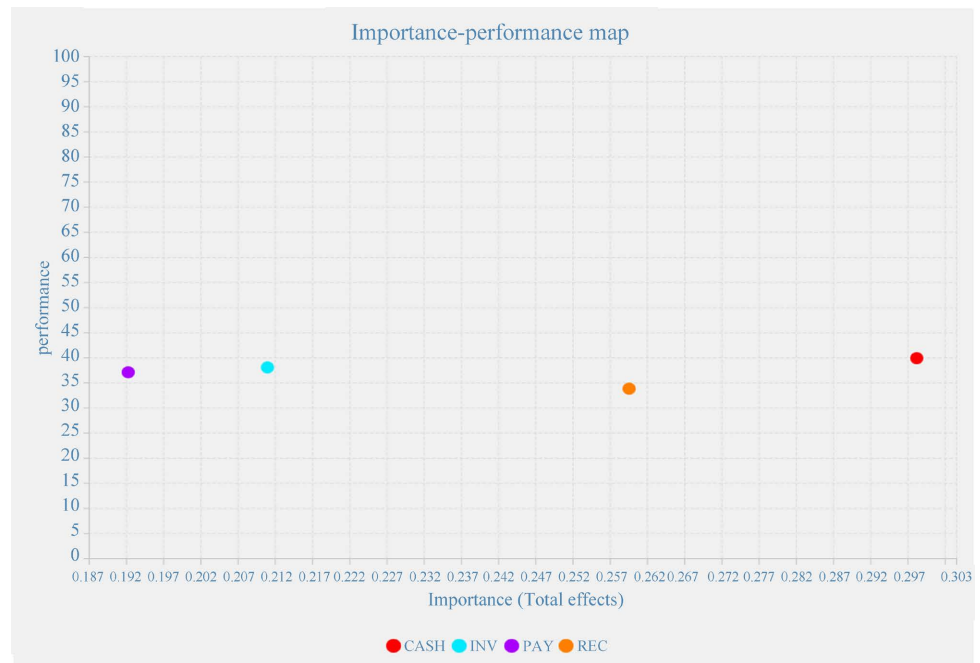


Figure 3. Importance performance map (IPM).

An observation from **Table 6** shows that the exogenous variables have a high degree of positive effect on the performance of SMEs, implying that improvement in these indicators would have a tremendous effect on performance. Nonetheless, the most impact on performance by these factors is caused by CASH management, with REC management causing less impact. This confirms the IPM results. This connotes that improving performance using WCM should be given priority to CASH management with less attention on REC management.

Table 6. Importance performance values.

Variables	Total Effect (TE)	Performance (P)	Overall Score(P/TE)	Ratings
CASH	0.298	39.847	133.7148	1
INV	0.211	38.006	180.1232	2
PAY	0.192	37.04	192.9167	3
REC	0.26	33.774	129.9	4

Short-term financial decision refers to all financial management decisions

taken by managers of firms concerning the inflows and outflows that fall within one accounting year. It involves decisions regarding monthly, quarterly and semi-annually contrastingly, long-term financial decisions embody all financial management decisions on revenue and expenditure that spend beyond one accounting period [32] [53].

6. Discussion

The study recorded a positive relationship between cash management and SMEs performance. Therefore, **H1** is accepted. The observed positive relationship stands to reason that appropriately planning cash flow to avoid excess or shortage of cash and investing any extra cash to earn a windfall would improve the performance of SMEs in the Effutu municipality. Again, preparing and reviewing cash budget on a regular basis eliminates impulse purchases, and ensures prudent spending which results in better SMEs performance. The finding agrees with the working capital theory's preposition that proper cash management as a current asset improves SMEs' performance [21] [32]. Similarly, the result confirms the risk management theory's assertion that putting measures in place to monitor, identify, analyse, and control risk ensures effective cash management, thereby improving SMEs' performance. The positive relationship agrees with the account of [21], who found a positive association between cash management and SMEs performance. Notwithstanding, studies by [49]. [29] discovered an inverse association. Furthermore, the argument put forward by [53] that cash management negatively impacts SMEs' performance contradicts the present study's findings.

The inquiry registered a positive effect of inventory management on SMEs' performance. The **H2** is accepted, which signifies that conducting regular stock-taking, and ordering inventory based on current stock level and market demand enhances SMEs' performance. Also, making a conscious effort to plan and implement appropriate inventory measures and to convert inventory into cash, thus, maintaining a short inventory cycle would significantly increase the performance of SMEs in the Effutu municipality. The result meets the expectation of the working capital theoretical framework because prudent measures taken to control stock movement in an enterprise improve performance. Moreover, as found by the study, implementing measures to curtail uncertainties that may affect inventory would improve SMEs' performance which is in line with the risk control theory [38] [39]. The finding confirms the account of [49], who discovered a positive relationship between inventory management and SMEs performance. Conversely, the same result is inconsistent with the evidence put forward by [29] [49], who found an inverse relationship between inventory management and firm performance. Moreover, the finding deviated from the inverse relationship found by [53].

A positive causal relationship exists between receivables management and SMEs' performance. The **H3** is supported, indicating that operating under a comprehensive debt collection policy and setting attractive discount packages

would increase firm performance. Again, setting an optimal debt collection period would reduce the debt stock of customers and enhance organisational performance. Moreover, setting a standard level at which a single customer can purchase on credit minimises indebtedness by customers and improves SMEs' performance. This result also conforms with the prepositions of the working capital management theory, which advocates that better management of the receivables of a firm increases organisational performance [31] [32]. The risk control theory's admonitions are supported by our result since instituting appropriate risk measures toward receivables reduces bad debts and their associated cost, which improves SMEs' performance. The finding confirms the account of [20], who discovered a positive relationship. Nonetheless, the finding contradicts the argument championed by [21] [29] [48] [49] that there is a negative association between receivables management and SMEs performance. On the other hand, [51] found a U-shape relationship.

Again, the investigation found a positive relationship between payables management and SMEs' performance. The **H4** is accepted. The failure to reject this hypothesis means that sound payables management significantly increases SMEs' performance. This significant rise in firm performance could stem from an improved firm reputation and increased loyalty. Also, the positive association implies that appropriately negotiating for a credit period beyond 30 business days would leave enough cash at the disposal of the firms to be used for extra trading, yielding higher revenue. Moreover, good payables management practices result in improved firm performance because a favourable payment period allows the enterprise enough time to sell goods purchased on credit before repaying its debt. The assertion of the working capital theory that appropriate handling of payables improves SMEs' performance is confirmed by the discovered positive relationship [31]. Similarly, the risk management theory's proposition that controlling risk affects working capital indicators is supported by a positive relationship [39]. The positive association is in alignment with the account of [29] [48], who alluded that account payables management has a positive significant effect on the performance of SMEs. In addition, the positive result affirms the claim of [51]. On the contrary, [49] [53] put forward that there is a negative association between account payables management and performance.

7. Conclusion

The study sought to investigate the relationship between working capital measures CASH, REC, INV, PAY and the performance of SMEs in the Effutu municipality. The explanatory design and quantitative approach were employed in the exploration. A sample of 130 was drawn from a population of 184 SMEs in the Effutu municipality, a questionnaire was deployed for data collection. PLS_SEM was deployed as the data analysis technique. Successful application of the PLS_SEM after a series of robust tests revealed a positive association between all the exogenous variables and SMEs performance leading to the acceptance of

all the study hypotheses. Our results of a positive relationship between cash management, inventory management, receivables management, payables management and SMEs performance means that proper management of these indicators positively impacts the performance of SMEs in the Effutu municipality. These findings are consistent with existing studies to a greater extent since the literature has it that sound management of working capital indicators increases SMEs performance. Again, our findings agree with the preposition of the working capital management theory. Moreso, our findings support the expectation of the risk management theory in that instituting measures to curtail probable risk improves SMEs performance. The following conclusions are drawn in light of the findings. First, the study concludes that preparing and reviewing cash budget on a regular basis, maintaining an optimal level of cash and investing excess cash for a windfall would improve SMEs performance. Second, maintaining a moderate inventory conversion cycle based on market demand, engaging in stock-taking on a regular basis, implementing effective inventory management, avoiding over or under-stocking and instituting mechanisms to monitor inventory movement would increase SMEs performance. Third, pegging short receivables days, instituting stimulating discount packages to prevent defaults and using effective credit standards regarding credit sales are needed to increase the performance of small and medium-scale firms. Lastly, the research concludes that negotiating for longer payables days, dealing with cooperating suppliers and meeting deadlines on short-term obligations enhance reputation, give SMEs the room to operate freely and consequently impact SMEs performance positively.

8. Recommendations

The study urges SME managers to institute cash mechanisms that would prevent excess and shortage of cash. Again, managers of SMEs are implored to prepare and review cash budgets on a regular basis, this would minimise impulse purchases and ensure the availability of cash as and when needed. The business advisory board of assemblies should consider engaging owners and managers of SMEs in their respective districts to train them on sound cash management practices. Again, overseers of SMEs are implored to maintain a short inventory conversion period within 27 working days, subject to respective market demand. SMEs should peg their inventory at appropriate levels that minimise storage costs and refrain from the practice of frequent reordering to reduce ordering costs.

Also, managers of SMEs should peg their receivables period less than 30 business days to ensure the availability of adequate cash. Implement standard discount packages to encourage payment. Moreover, owners of firms should negotiate for payable days beyond 30 business days to ensure adequate time for converting inventory into cash. To maintain a healthy trading relationship, SMEs should satisfy their debt when they fall due to avoid legal repercussions.

Furthermore, policymakers should introduce measures that would encourage

the growth of SMEs such as tax incentives and other business support services like soft loans. Our study brings new insight into the discussion on WCM practices and their effect on SMEs' performance using first-hand data and non-accounting base measures. Thus, our study is the first of its kind to explore the concepts in the Efutu municipality narrative and also used new measurement criteria to assess the concepts. Again, we explored this concept more robustly using the PLS_SEM as a contemporary approach other than the conventional OLS approach.

We recommend that academia explore the effect of WCM practices on the stock valuation of manufacturing firms in Ghana using non-accounting-based measures. Again, future studies should also explore the relationship in the Greater Accra metropolis.

Conflicts of Interest

The authors declare no conflicts of interest.

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