# ANALYSIS OF CASH FLOW MANAGEMENT AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN ACCRA, GHANA.

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By

Gifty S. Malm

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4A51B7D6DE214E1...

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DocuSigned by:
James Ashton
F511BCD1E1ED46B...

3/31/2020

Committee Member James Aston PhD Date

DocuSigned by:
Daniel Zimmerman
5F9B298EF9224BB...

3/31/2020

Committee Member Daniel Zimmerman PhD Date

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DocuSigned by:
James Rieger
A3455CEB9CE3462...

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James B. Rieger Date

## Dedication

I dedicate this study to my family especially my parents, siblings and my husband Ebenezer Malm for their support throughout this doctoral journey and various life challenges. I also dedicate this study to my children Derrick and Jason Malm, who will definitely see my achievement in the future and know with determination, nothing is impossible.

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## Abstract

Small and Medium Enterprises have been identified globally to be a contributing factor to the economic growth of most countries around the world including Ghana. Despite the importance of SMEs to the Ghana's economy, there has been a low survival rate of small and medium enterprises (SME) in Ghana within the first two years of their start up due to lack of positive cash flow. The purpose of this study was to investigate the effect of combined cash flow management practices on SMEs in Accra. This study was guided by the following objectives 1. collect descriptive evidence on the effect of cash flow management practices on financial performance of SMEs in Accra, Ghana. 2. determine which cash flow specific cash flow management practices utilized by SMEs must be emphasized to improve financial performance of SMEs and 3. contribute to the knowledge body regarding the cash flow management practices and financial performance of SMEs. The study utilized survey, interviews and secondary data received from SMEs owners voluntarily for a 2-year period from 2017 to 2018. Statistical Package for Social Science (SPSS) was used to analyze data collected. SPSS was employed for data analysis since it was suitable for quantitative and qualitative data analysis. Results obtained from study indicated combined cash flow management practices (Specialized Staff, Cash Flow Forecasting, Banking Relationship, Inventory Management, Debtor Management, Bad Debt Management, Creditor's Payment, Interest Payment, and Cash Flow Statements) had positive and significant effect on financial performance of SMEs. The study recommended SMEs should therefore ensure there was great emphasis placed on combined cash flow management practices to enhance their financial performance. Future research could focus on surveying a larger sample of SMEs in the Greater Accra Area to analyze their relationship between their combined cash flow management practices and financial performance.

## TABLE OF CONTENT

# LIST OF TABLES

LIST OF FIGURES

# CHAPTER ONE: OVERVIEW OF THE STUDY

This Descriptive Analysis research applied Quantitative method and the Qualitative Case Study to investigate the effect of cash flow management practices of 20 Ghanaian small to medium sized businesses on their financial performance, as well as recommend best combined cash flow management practices to improve their performance. The purpose of improving the financial performance of these Small and Medium Scale Enterprises was to elevate their two-year failure rate from startup to at least ten years to be more sustainable. In addition, this study sought to implement positive combined cash flow management practices utilized by selected small businesses for the study. Among these practices were forecasting cash flow for the next 90 days, reviewing and updating business forecast regularly, cash flow statement creation monthly, requesting favorable payment terms from vendors, cutting or delaying expenses, paying the most important bills first, requesting more timely payment from customers, asking for deposit or milestone payments, earmarking savings for unforeseen expenses, and maximizing inflow of cash.

Cash flow which refers to the net amount of cash inflow and outflow of a business can be broken down into three categories: operating cash flow, which includes day-to-day cash activities related to net income; investing cash flow from sales of properties, equipment, or plants; and financing cash flow, which also includes transactions with lenders (Shepherd, 2007). Cash flow has been identified to be vital to the success and sustainability SMEs as well as its business operating cycle around the globe. Business operating cycle is defined as the activities required by an SME to acquire, produce, and have its goods, products, or services sold to receiving cash in exchange for the goods sold from its customers. Management of cash flow involves cash flow controlling and planning, which is suitable for the nature of a business's operation cycle. SMEs seek to acquire cash in order to bridge the gap between the period of businesses expenses and receiving funds for services provided and goods sold to customers to balance their cash flow. Around the globe, cash for SMEs is generated and managed through the optimization of cash and capital, which is invested in the business for its growth. Van Horne, J. C. (2000) emphasized SMEs need to prepare cash budget by forecasting the inflow of cash and the outflow to be able to balance their cash flow and prevent a shortage of cash for the SME's operations. Lack of adequate cash flow has been identified as a major challenge leading to the failure of SMEs due to not inadequate financial performance, with SMEs Ghana not being an exception. Chapter 1 begins by describing the background of the problem, which includes the challenge of Ghanaian Small and Medium Enterprises surviving past the first two years of startup (Kusi, Narh, & Tettey-Wayo, 2015), followed by the purpose of the study, formulated research questions, and significance of the study.

## Background of the Study

The Quantitative Descriptive and Qualitative Case study which investigated the impact of cash flow management practices of 20 Ghanaian SMEs on their financial performance sought to implement positive combined cash flow management practices utilized by selected SMEs for the study. Among these practices were forecasting cash flow for the next 90 days, reviewing and updating business forecast regularly, cash flow statement creation monthly, requesting favorable payment terms from vendors, cutting or delaying expenses, paying the most important bills first, requesting more timely payment from customers, asking for deposit or milestone payments, earmarking savings for unforeseen expenses, and maximizing inflow of cash.

Around the globe, there have been various researches which indicate the impact of negative cash flow on the financial performance of businesses leading to less profitability and sustainability (Shepherd, 2007). A study conducted by the International Trade Center (ITC) identified inadequate cash flow management as the major causes of small business failure around the world (Parrish, 2017) due to its impact on their financial performance. According to the United States Small Business Administration, 51% of businesses fail due to lack of adequate cash flow in their first year, and 95% fail within their first two years (Titus, 2012). Inadequate cash flow management has a high probability of becoming destructive to the sustainability of SMEs while adequate cash flow management can also increase the sustainability of the SMEs (2010). Evaluation of cash flow for SMEs is usually related to how well SMEs manage their assets, shareholder equity, short-term obligations, liability, and revenue. Negative cash flow indicates a decrease in liquid assets of a business, whilst positive cash flow for a small business indicates an increase in liquid assets which enables the business to have control overpayment, manages expenses relevant to the business, pay dividend to shareholders and have a funds readily available for future financial challenges or investment opportunities. In order to determine the effectiveness of a business's cash flow management, its management account receivables, management of account payables and inventory management have to be measured and evaluated (Titus, 2012). Cash flow ratio analysis has been seen to be one of the best tools for cash flow management evaluation of businesses.

Despite accounting for 50% of job creation and contributing about 70% of the country's gross domestic product (Frimpong, 2013), Small and Medium Enterprises in Ghana are not an exception to this case of cash flow management and its impact on the financial performance of SMEs. Association of Ghana Industries (AGI) indicates that SMEs are critical to most countries' economies, including Ghana's economy. According to Kusi, Narh, and Tettey-Wayo (2015), SMEs in Ghana contribute to the economy of the country by reducing unemployment rates. Despite its contribution to the economy of Ghana, small and medium enterprises owners in Ghana have struggled to sustain their businesses within their first two years after startup (Kusi, Narh, & Tettey-Wayo, 2015). With the high rate of SMEs failing within the first two years of their startup, policymakers, business owners and managers have sought to identify factors leading to failure of theses SMEs to reduce the unemployment and poverty rates in Ghana (Agyapong, 2010) prompting substantial research on the factors that cause these SMEs to fail. Some of these factors identified include lack of industry experience, poor business planning, management incompetence, ignorance of competition with lack of adequate cash flow and cash flow management being the major factor (Kusi, Narh, & Tettey-Wayo, 2015). In their research, Kusi, Narh & Tettey-Wayo, (2015) continued to say inadequate knowledge of cash flow management coupled with business's industry facts and challenges have led to SMEs having problems in terms of their financial performance.

## Statement of Problem

The purpose of this Quantitative Descriptive and Qualitative Case Study was to investigate the effect of combined cash flow management practices of 20 Ghanaian SMEs on their financial performance and recommend cash flow management practices to that have to be emphasized on improve their performance. The purpose of improving the financial performance of these SMEs is to elevate the two-year failure from the startup of SMEs to at least ten years to be more sustainable. In addition, this study sought to implement positive combined cash flow management practices utilized by selected small business for this study. Among these practices were forecasting cash flow for the next 90 days, reviewing and updating business forecast regularly, cash flow statement creation monthly, requesting favorable payment terms from vendors, cutting or delaying expenses, paying the most important bills first, requesting more timely payment from customers, asking for deposit or milestone payments, earmarking savings for unforeseen expenses, and maximizing inflow of cash.

Cash flow management activities of Small and Medium Scale Enterprises in Accra, Ghana have posed a challenge to their financial performance. The financial performance has been evidenced by the decrease in profitability leading to collapse of SMEs in Accra within the first two years of their startup due to lack of cash flow coupled with less knowledge of best cash flow management practices. The study did focus on the impact of current cash flow management practices on the financial performance of SMEs in Accra. There has been an acknowledgment of SMEs' contribution to the economic development of countries worldwide, which has prompted various stakeholders and governments to grant support to SMEs for empowerment and to increase their sustainability and longevity. Despite these interventions, to assist with SMEs financial performance, there are still challenges which hinder their performance with the main challenge is identifying the best cash flow management practices. With Concerns about low SME financial performance and profitability, previous researchers have identified a lack of adequate cash flow management as a major factor which impacts the profitability of SMEs in Ghana. The finding from these researchers has mainly described the behaviors of SMEs towards their cash flow management behaviors without adequate investigation of the impact these cash flow management practices have on the financial performance to recommend best practices that can be implemented to address these issues SMEs face due to their cash flow management behaviors. A gap still exists in the literature related to combine positive cash flow management practices to improve the financial performance of SMEs, which needs to be supplemented. This knowledge gap needs to be addressed and bridged for the sustainability rate these SME to be elevated from two years of failure from startup ten years or more with an increase in profitability. Based on the finding and the recognition of these literature gabs, a study of cash flow management practices with its impact on the financial performance of SMEs is justified.

This research sought to investigate cash flow management practices utilized by 20 SMEs in Accra, Ghana and the adverse impact on their financial performance. The goal of examining the current cash flow management practices and recommend which successful cash flow management practices can be recommended for SMEs is to improve the knowledge of cash flow management leading to adequate financial performance for them to be sustainable by elevating their failure rate from two years of start-up to at least ten years.

**Purpose of the Study**

The purpose of this research was to utilize Quantitative Descriptive and Qualitative Case Study method to investigate the combined effect of cash flow management practices of 20 Ghanaian SMEs on their financial performance and recommend best cash flow management practices to be emphasized in order improve their performance. The purpose of improving the financial performance of these SMEs is to elevate the two-year failure from the startup of SMEs to at least ten years to be more sustainable. The information regarding the study sought to implement positive cash flow management practices utilized by selected small businesses for this study. Among these practices are forecasting cash flow for the next 90 days, reviewing and updating business forecast regularly, cash flow statement creation monthly, requesting favorable payment terms from vendors, cutting or delaying expenses, paying the most important bills first, requesting more timely payment from customers, asking for deposit or milestone payments, earmarking savings for unforeseen expenses, and maximizing inflow of cash. The study also sought to identity the current specific cash flow management practices used by SME and identify the impact on such practices on their financial. The metrics included Specialized Staff, Cash Flow Forecasting, Banking Relationship, Inventory Management, Debtor Management, Bad Debt Management, Creditor's Payment, Interest Payment, and Cash Flow Statements. Because there has not been adequate research about the cash flow practices which can lead better sustainability and to help prevent SME failures in Accra Ghana, the study aimed to yield replicable results that will likely be useful in further scholarly and professional research.

## Methodology

The methodology for this study was based on Quantitative Descriptive and Qualitative Case Study research design. A Semi- Structured questionnaire which did consist of opened and closed ended questions was utilized to collect data through a survey. Interviews were conducted through video calls which will be recorded. Opened ended questionnaire was developed to enable respondents provide information which related to their cash flow management practices as business owners. Financial statements from participants as secondary data to analyze consistency in keeping financial records were also requested. The dependent variable for the study was financial performance. The independent variable was Cash flow management practices measured with following metrics (Specialized Staff, Cash Flow Forecasting, Banking Relationship, Inventory Management, Debtor Management, Creditor Management, and Cash Flow statement). The study did focus on businesses who have been in existence for 2 years or more with adequate financial statements. The financial statements did include balance sheet, income statement and cash flow statement. Additionally, the financial statement did entail components to calculate cash flow ratios (for example current liabilities, current assets, cash flow from operations and inventory). Multiple Regression analysis was used to study the relationship between the variables.

A Case Study was selected for the quantitative descriptive and qualitative study due to in-depth focus on improving financial performance of SME to increase their sustainability rate. The case study design was a suitable design for the study because allowed the impact of cash flow management on financial performance of SME to be investigated (Yin, 2014). The case study research design also made it possible for development of recommendations based on findings from the study which will have a significant impact on SMEs if implemented. As part of the survey designed for data collection, a questionnaire was used to measure cash flow management practices and their impact on financial performance using descriptive statistics. The questionnaire was designed asking open and closed ended questions. The latter was done asking respondents to rate statements in relations to their cash flow management on a 5 point Likert-scale which will have to be answered by choosing one of the following options for each question: 1 = ‘strongly disagree, 2 = ‘disagree’, 3 = ‘neither agree or disagree’ , 4 = ‘agree’ and 5 = ‘strongly agree’.

## Research Questions

The study addressed the following primary research questions:

- What is the relationship between current individual cash flow management practices utilized by SME in Accra and their financial performance?

- What is the combined effect of cash flow management practices on financial performance of SMEs in Accra, Ghana?

- What impact does the knowledge possessed on cash flow management have on financial performance of SMEs in Accra Ghana?

In this research, the focus was to identify the effect of cash flow management practices of 20 Ghanaian SMEs on their financial performance and to recommend the best cash flow management practices to improve their performance. The Theory of cash flow research began in the year 1950s, which was coined in by Mason (1961). Based on its objectives, the theory was divided into four phases, including liquidity management, excess or surplus cash management, cash control management, and management of cash movement. Jensen's (1961) theory of cash flow was found to be the most cited in cash flow management literature. According to Jensen (1961), Cash flow is vital to the financial performance and sustainability of a business. He broke down cash flow in operating cash flow, investing cash flow, and financing cash flow. The central idea of Jensen's cash flow theory was cash flow being the best measure of a business's financial performance since cash is tangible, can be quantified and measurable in standard units, therefore, used as an indicator to measure the financial performance of a business and indication on the success and growth of the business. He emphasized cash flow as being cash coming into a business defined as cash inflow and cash going out defined as cash outflow with the difference between these two is net cash flow. Jensen (1961) continues to say the net cash flow could be positive, which occurs when the business receives more money than it payables or negative when the business pays more cash than its receivables. Jensen (1961) continued to talk about options to maintain positive cash flow which included forecasting cash flow for the next 90 days, reviewing and updating business forecast regularly and creating cash flow statement monthly. Jensen continued to identified other cash flow management methods as requesting favorable payment terms from vendors, cutting or delaying expenses, paying the most important bills first, requesting more timely payment from customers, asking for deposit or milestone payments, earmarking savings for unforeseen expenses, and maximizing inflow of cash.

With impact of cash flow on financial performance, Kroes & Manika (2014) in their study examined the impact of cash flow management on financial performance of a company and concluded by reducing the measured number of days of sales outstanding which is account receivables and also reducing the number of inventory outstanding, a firm will be able to improve its financial performance.  Kamala and Enow (2016) also approached the subject of SMEs and cash flow by emphasizing the inflow and outflow of cash within a business to have a positive with a balance account receivables and payables. Ackah & Vuvor (2011) also emphasized in their empirical study Cash flow management is important for the various stages of the SME's business life cycles because its viability relies greatly on effective management of its account receivables, account payables, and an inventory which are a few of major metrics which measure efficient cash flow management. For example, in the startup stage, an SME will need to establish positive cash flow which can be attained through positive cash flow management strategies like receiving and making payments on time and having access to funding when necessary to help with investment opportunities to transition to the growth stage. While addressing the need for cash flow, Sheperd (2007) in his study of the relationship between cash flow and performance of SMEs viewed cash flow management as the key aspect to whether an SME would succeed or fail within the first two to five years of startup. However, Kamala and Enow (2016) noted an unfortunate split between cash flow management and financial resources in Ghanaian SMEs, which tends to cloud their sustainability rate. He stated further that though, conceptually, an SME that makes a profit might be seen to be successful, it might still fail and not be sustainable if it does not have enough cash to meet its total financial obligations. In support of this, Frimpong (2013) emphasized that an SME can have losses and continues the daily operations if the funds are available, whereas another SME can generate profits yet still not be sustainable due to less cash availability.

## Significance of the Study

The significance of the research study was related to the importance and impact cash flow management practices have on the financial performance of SMEs in Accra, Ghana. The research study will be valuable to SMEs in Ghana. First, recommendations made from the study findings and results will offer insight to improving current cash flow management practices of the SMEs which in turn will increase profitability and elevate the sustainability rate of SMEs from 2 years to at least ten years after their startup. Owners and managers of SMEs will more efficiently manage their cash flow and also measure efficiency accurately with the use of cash flow metrics. SME owners will have a better opportunity of having access to funding from creditors once they can improve their sustainability leading to the growth of their business. Most importantly creditors will also have a better knowledge of financial performance of SMEs which will reflect their ability to pay their long- and short-term debt without defaulting. Finally, the study will academically contribute to the knowledge body of cash flow management and sustainability of SMEs.

## Assumptions, Limitations and Delimitations

### Assumptions

The first assumption of the study was cash flow is very vital to the financial performance and sustainability of SMEs which relates to how important it is for SMEs to evaluate and measure their cash flow constantly (Oral, 2016). Cash flow evaluation relates to how well SMEs manage their assets, shareholder equity, short-term obligations, liability, and revenue. Despite the importance of cash flow to SMEs, the study assumes SMEs in Ghana have cash flow management challenges leading to negative cash flow with these challenges having an impact on their financial performance leading failure (Titus, 2012). According to a study done by Small Business Administration of the USA 2016, 50% of SMEs fail within the first two years of their startup due to the lack of positive cash flow (SBA, 2016). Negative cash flow indicates a decrease in liquid assets of a business, whilst positive cash flow for a small business indicates an increase in liquid assets. The study assumed SMEs with positive cash flow have control over payment, managing expenses relevant to their business, paying dividend to shareholders and have funds readily available for future financial challenges or investment opportunities leading to higher sustainability rate (Wickramasinghe, 2017). It is assumed all SME are started with the intended purpose being sustained more than assumed 2 years after their startup. The study assumes there are financial statements available to be released voluntary as data to be analyzed and used for the study (Cohen & Lathan, 2017). The study also assumes secondary data from financial statements released by SME owners will be accurate and reliable to produce statistically sound results (Somonas, 2015).

**Limitations**

This study did identify three limitations. The first limitation was inadequate published journals and articles on the best cash flow management practices for SME in Ghana for further research. Previous researchers have concentrated on finding out the causes of SMEs not being sustainable within the first two years of their startup with cash flow being the major factor. Despite these findings, researchers have not gone further to investigate the current cash flow management practices to recommend the best cash flow management practices to elevate the sustainability rate of SMEs in Ghana. The second limitation identified will be data constraints due to secondary data collection method, survey and interview over the phone. Since data will not be collected with the researcher being involved but secondary data collected from participant voluntarily and survey, the research will have to utilize the survey responses as answered by respondents and their financial statements which will include a balance sheet, cash flow, and income statements exactly as it is given after clarification and request for further explanation. Thirdly, the scope of this research will be limited to the Greater Accra Region of Ghana, so the results cannot be generalized for all SMEs in Ghana. Though the objectives of the study are to:

1. Collect descriptive evidence on cash flow management practices of SMEs in Accra, Ghana.

2. Determine which cash flow specific cash flow management practices utilized by SMEs have to be emphasized to improve financial performance of SMEs.

3. Contribute to the knowledge body regarding the cash flow management and financial performance of SMEs, SMEs around the country cannot utilize the recommendations from this research since it will be based on data collected from SMEs in the greater Accra region only.

**Delimitations**

The research identified two main delimitations. The first delimitation was choosing the right research method to answer the research question for the study, quantitative descriptive and qualitative Case study. A quantitative descriptive and qualitative case study method were suitable for this study because it sought to answer questions about What, How and Why for an event understudy which for this study was

- What is the relationship between current individual cash flow management practices utilized by SME in Accra and their financial performance?
- What is the combined effect of cash flow management practices on financial performance of SMEs in Accra, Ghana?
- What impact does the knowledge possessed on cash flow management have on financial performance of SMEs in Accra Ghana?

The second delimitation will be to possibly include only SMEs who will have been in existence for more than two years and also have result structure in place for recording their financial statements.

## Definition of Terms

**Account payables turnover ratio.** This ratio determines the rate at which SMEs pay off their suppliers and measures their liquidity

**Account Receivables Ratio**. Accounts receivable is money owed by customers to a business for a service provided or product sold to them (Kumor, 2013).

**Business life cycle**. The business life cycle is defined as the phases the average business goes through over a period of time which can be divided into five stages: seed stage, startup, growth, expansion, and maturity (Kesidou & Carter, 2018).

**Cash Flow**. Cash flow can be defined as the inflow and outflow of cash, which also represents an organization's operations, cash flow represents the difference between the available cash of an organization's opening balance, the amount available when a company starts up, and the total amount available at the end of a period, known as the closing balance ( Enow and Kamala, 2016)

**Cash Conversion Cycle**. The Cash Conversion Cycle of a small business comprises of various ratios which are inventory turnover management, account receivable management, and account payables (Wang, 2010).

**Current Ratio.** Current Ratio of a business is used to measure its short term liquidity position and well as providing a quantitative relationship between its current assets and current liabilities such as salary, taxes and account payables (Durrah, Rahman, Jamil, &, Ghafeer 2016).

**Free Cash Flow.** Free Cash flow of a small business determines the cash the business has available after paying for its expenses to maintain its assets or develop them (Jensen. 2015).

**Inventory Conversion Ratio.** The inventory conversion period for small business is the average time a business is able to convert its inventory into finished goods and how long it takes for those goods to be sold which also helps the small business owner to identify how long it takes from cash being paid for inventory and when the business is paid for its inventory by customers. (Zakari & Saidu, 2010).

**Operating Cash Flow ratio.** Operating cash flow ratio is small businesses measures how well they pay off their current liabilities with cash generated from their core business operations solely for example from sale of their products or services provided (Zeller & Stanko,1994).

**Quick Ratio**. Quick ratio of SME is the measure of its liquidity which is considered the ability of the SME to covert its assets into cash in order to pay its debt obligation with a 12-month period and also determines the number of dollars in cash and account receivables for every $ 1 in current liabilities of the SME (Asamoah, 2010)

## Summary and Organization of Remaining Chapters

Cash flow has been identified to be vital to the financial performance, profitability, and sustainability SMEs as well as its business operating cycle around the globe. Management of cash flow involves cash flow controlling and planning, which is suitable for the nature of a business's operation cycle. SMEs seek to acquire cash in order to bridge the gap between the period of businesses expenses and receiving funds for services provided and goods sold to customers to balance their cash flow and to stay in business, and also need cash flow to explore business opportunities and to be able to penetrate the global markets with the world now being a global market.

The study utilize quantitative descriptive and qualitative case study to investigate the effect of cash flow management practices on financial performance with the formulated research question for the study which was analysis of cash flow management and financial performance of small and medium enterprises in Accra, Ghana? Chapter 1 began by describing the research background, which included the challenge of Ghanaian SMEs surviving past the first two years of startup (Kusi, Narh, & Tettey-Wayo, 2015), followed by a statement of the problem and the proposed analysis of cash flow management practices used by 20 SMEs. The chapter continued to discuss the statement of purpose and addressed the research question, the limitations, and delimitation of the research, and finally, the definition of terms.

## CHAPTER TWO: LITERATURE RIVIEW

The purpose of this research was to utilize Quantitative Descriptive and Qualitative Case Study method to investigate the effect of cash flow management practices of 20 Ghanaian Small and Medium Scale Enterprises on their financial performance and recommend best cash flow management practices to improve their performance. Specifically, the study was designed to uncover how Cash Flow Management Practices impact Financial Performance of SMEs.

The main objectives of literature review section was to (1) examine how previous researchers identified and defined cash flow (2) review findings from previous researchers in relation to combined effect of cash flow management practices on financial performance of SMEs and (3) identify research gaps within the knowledge body cash flow management and sustainability of SMEs in Accra, Ghana. The section also reviewed literature on cash flow management practices of Small and Medium Enterprises and the impact it has on their financial performance. Cash flow has been seen to be very critical for growth and expansion of SMEs around the globe.

### A Brief History of Ghana

Ghana is a democratic nation in West Africa and the first sub-Saharan colony to gain independence in 1957 (Thompsell. 2018). The economy of Ghana correlates to commodities which are global such as cocoa, oil and gold. These three global commodities serve as the main sources of income and any price swing of these commodities increases spending on domestic public sector wages. The name “Ghana,” which was previously known as “Gold Coast,” was derived from the medieval Ghana Empire of West Africa, which existed from the fourth to the

13th centuries (Kea, 2012). The Empire of Ghana began mining and trading gold in the 11th and 12th centuries. This changed after the empire was conquered by the kingdom of Melle.

After attaining its independence, Ghana's economy began to progress, starting with small business trading in cocoa though they were confined in their communities where they operated. From 1966 to 1981, Ghana's economy struggled due to political instability and famine. In 1990, Ghana transitioned to a democratic leadership, which boosted its economy following the downturn experienced during the 1970s, attaining economic progress and political stability. Ghana has made great progress in obtaining financial assistance as well as foreign direct investment (FDI).

## Economy of Ghana

Over the years, researchers such as Stengo and Asieedu (2014) have seen Ghana as a country with moderate but consistent economic growth and poverty reduction rates. The country has a population of 24 million, made up of 100 ethnic groups. According to Stengo and Asiedu (2014), there are about 11.5 million people in Ghana's labor force. The country mainly relies on its agricultural sector, which accounts for 37.3% of the gross domestic product (GDP) and makes up 56% of the national work force.  The economic decline, which ran from 1966 to 1981, led to a broken economic system, a rise in inflation, currency depreciation, an increase in unemployment, and a significant budget deficit. Lanham (2015) emphasized major factors that led to this downturn: the budget deficit had low revenue mobilization and citizens took advantage of the depression to avoid paying taxes. In her research, Lagarde. (2018) stated that the International Monetary Fund (IMF) intervened in 1982, which led to the country making structural adjustments to its economy. This economic intervention pitched the country's economic reforms and was subsequently implemented in 1983.

Ghana's economy was impacted by the global recession just as it did though to most African countries slowly. Ghana among other African countries saw great decrease in the demand of its goods for exports as well as decrease in prices of its commodities as the cost of international trade got expensive (Ackah, Arthur & Quartey, 2016). Foreign direct Investment also fell as foreign direct investors got frighten to invest in the countries to mitigate the risk of losing their investments. Ackah, Arthur and Quartey continued to say data for the International monetary fund did indicate the economic growth of most African countries including Ghana fell by nearly 4 percent in 2009. IMF also attributed this fall in economic growth to less demand of export, decrease in remittances, less revenue from tourism and decline in private cash flows.

**Definition of Small and Medium Scale Enterprises**

Over the year's different authors, researchers, and policy makers have defined "SMEs" differently and have often used a variety of criteria to define it (Chen, 2016). A review of the literature by Hossain & Kauranen, did reveal there is no singly formulated definition of SMEs. Hossain, M & Kauranen, I. (2016) continue to say each country defines SMEs using different categories which includes number of employees, assets and income. In their research, Amoah & Amoah (2018) noted that policy makers and researchers use the total wealth of an SME, its gross domestic product, total number of employees, and annual sales to define an SME. They continued to say the definition of SMEs varies from country to country due to their different economic concepts and the importance of the SME to their economy. Around the globe, SMEs have been seen to be a major drive to the economy of all countries prompting major attention and contribution towards these SMEs in terms of their growth and sustainability. For example, the European Union has identified SMEs as the engine which drives the European Economy since they drive the creation of job, positively impact the growth of the economy. Statistically, 88.8 million was provided through the creation of jobs by over 21 million SMEs within the EU (European Union, 2016). The EU committee in their statistics continued to say nine out of 10 enterprises within the EU was an SME. Per the European Union Law, SMEs are defined by the European commission by their number employees and turnover. The law Categorizes SMEs into three criteria's, which includes medium sized enterprises as having capacity to employ 250 employees, Small enterprises with up to 50 employees and micro enterprises with capacity of employing up to 10 employees (European Union, 2016). (2018) emphasized in their research different states within the European Union still have different definitions of SMEs despite the threshold established by the European Union. In the United States, The Small Business Administration (SBA) defines SMEs in terms of employee capacity as a business with 500 employees or less (SBA, 2015). According to Dar, Ahmed. & Raziq, (2017) in the United Kingdom, Bolton did regard SMEs as firms with relatively small the marketplace, firms who an informal management structure, managed by owners in a personalized format and if they were not dependent on any larger enterprise. The World Bank Categorizes Micro enterprises as enterprises which have up to 10 employees with a total annual sale of up to US $100, 000, Small Enterprises as enterprises with capacity of employing 10 to 50 employees with annual gross sale between US $100 and US $3 million and Medium sizes as enterprises with 50 to 300 employees with annual gross sale of US $3million to US $15million.

A basic feature that distinguishes SMEs from larger businesses is that they do not have international and local capital markets and face fixed costs in their operations (Dar, Ahmed. &

Raziq, (2017). International capital markets allow companies and businesses to access foreign markets as well as funds to help their growth and expansion. These markets also provide returns that are higher and have cheaper borrowing costs, which is a great benefit to the companies' borrowing. Winsome (2015) emphasized in his research that SMEs focus on a market niche to provide their products and services. Because SMEs normally employ fewer employees and have limited funds available, they tend to produce fewer products and offer services for specific markets and consumers. As they grow, increase their sales, and hire more employees, SMEs tend to venture into new markets to offer new products or services. The operation of SMEs is a major characteristic that can be used to easily identify an SME. Compared to Large firms, SMEs operations are usually manual and more involving due to the lack of sophisticated and automated equipment to simplify their day to day activities and operations.

Fuseini, (2017) stated in their research the National Board of Small-Scale Industries (NBSSI) categorizes SMEs into two namely small and medium size enterprises. The NBSSI classifies Small enterprises as businesses which are capable of employing 9 to 29 employees with assets up to $100,000 whilst medium enterprises are capable of employing between 30 to 99 employees with fixed assets of $ 1m. The Ghana Statistical Services (GSS) in its industrial statistics defined SME based on their number of employees Fuseini, (2017). In his research, Fuseini, (2017) stated that the NBSSI separates SMEs in Ghana into urban and rural enterprises, which are subdivided into organized and unorganized enterprises. Fuseini further stated that organized SMEs have employees on their payrolls, whereas unorganized SMEs mainly consist of artisans who operate in temporary spaces or in their private residences with few or no employees. The GSS considers businesses with 10 employees of less as small scale and businesses with more than 10 employees as medium scale enterprises. In contrast, Hillary (2015) suggested that the number of employees or employee turnover does not define an SME; instead, it is defined by the business's culture, which reflects the values, behaviors, and beliefs of the business and its employees. Because of the importance of a business's culture and its significant impact on a business's success, SMEs strive to create a positive company culture, which has to work right from the business's startup phase. Based on the definitions from NBSSI this research will classify small enterprises as businesses which are capable of employing 9 to 29 employees with assets up to $100,000 and medium enterprises are capable of employing between 30 to 99 employees with fixed assets of $ 1m.

Table 1: SME Definitions Summary

| Source | Definition |
|---|---|
| United States Small Business Administration (SBA, 2015). | Enterprises with capacity to employ 500 employees or less |
| World Bank (2015) | Micro enterprises - Up to 10 employees with total annual sale of up to US $100, 000.<br>Small Enterprises - 10 to 50 employees with annual gross sale of $100 to US $3 million<br>Medium sizes as enterprises - 50 to 300 employees with annual gross sale of US $3million to US $15million. |
| European Union (2016) | Medium sized enterprises – Up to 250 employees.<br>Small enterprises – Up to 50 employees.<br>Micro enterprises - up to 10 employees. |
| National Board of Small Industries, Ghana (NBSSI | Medium sized enterprises – 29 to 99 employees with asset up to $1 million.<br>Small enterprises – 9 to 29 employees with assets up to $100, 000. |

## The Importance of SMEs to the Economic Growth of Ghana

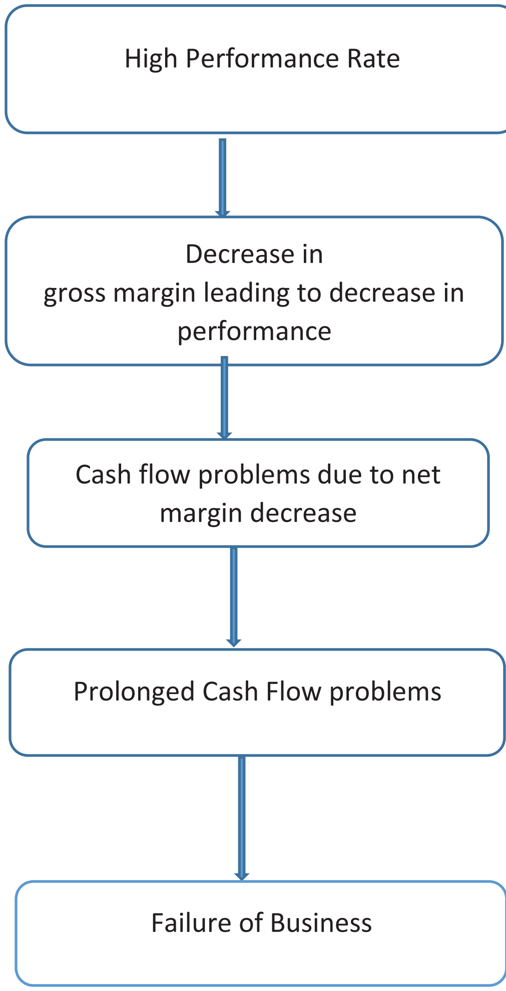
SMEs have been deemed the bedrock of Ghana's economic growth and development. Researchers and policy makers have reached this conclusion because SMEs play a crucial role in job creation, wealth generation, technological development, and income distribution. According to Seidu (2015), SMEs in Ghana play a major role in the quality of life and socioeconomic growth of the country. Based on the contribution to economic growth, support offered by SMEs to the economic growth of Ghana since 1957 have made great efforts to support SMEs with formulation of policy in favor of these SMEs (Mensah, 2004). Due to the importance of SMEs to the Economy of Ghana, its growth is periodically assessed which is done by the evaluation of its contribution to the three main sectors of the country's economy namely manufacturing, services and agriculture.

Over the years empirical studies have identified SMEs in Ghana as a major contributing element to the gross domestic product (GDP) of the country. According to Seidu (2015), SMEs in Ghana contribute over 70 percent of the country's gross domestic product (GDP) as well as 65 percent of its total employment. GDP is important to the country's economic growth since it measures the monetary value of finished goods and services produced in the country quarterly or yearly and determines the country's economic performance. Mensah, in his research continued to emphasize SMEs contribute to the GDP of Ghana through its contribution to local economies of the communities it which they operate through growth and innovation. He continued to say SMEs contribute to the economies of local communities by creating employment opportunities for citizens who are unemployable by large corporation due to lack of higher education. SMEs have been identified by researchers over the years to support larger companies through outsourcing to boost the economy of the country. Larger companies sometimes depend on SMEs to complete most of their business functions and processes since SMEs tend to be attractive to individuals with talent for the invention of new products or new solutions implementation for ideas which already exist.

**Theory of SMEs Failure and Success**

The theory of business failure was spearheaded by Sheppard Jeffrey Paul Sheppard (1995). In the past years, SMEs failure rate depending, on each industry and country, has fluctuated from 70 to 90% with cash flow listed as the number of the major reasons for their failure. According to Sheppard (1995), SMEs care said to be a failure if they are not able to acquire, manage and maintain the resources available to them in their environment being it internal or external and collapse after their startup. Sheppard went on to define the approach of utilizing resources available to SMEs to prevent failure and increase success as the resource dependency approach theory. Ritchie and Richardson, (2004) emphasized SMEs eventually fail if they are not able to obtain and manage adequate mix of the resources available to them. The theory of resource dependency does suggest various ways SMEs can make sure they survive which includes current assets. Failure can be defined in various categories including loss of working capital, unable to meet liability requirements, lack of profitability, falling short of goals, decline in performance and insolvency (Thornhill & Amit, 2003).

Figure 2. Various Stages of Failure (Thornhill & Amit, 2003).




## Cash Flow Management

The purpose of this Cash study is to investigate the impact of cash flow management practices of 20 Ghanaian SMEs on their financial performance and recommend best cash flow management practices to improve their performance.  The purpose of improving the financial performance of these SMEs is to elevate the two-year failure from the startup of SMEs to at least ten years to be more sustainable. It is therefore relevant for the concept of cash flow management to be clarified before establishing the relationship between cash flow management and financial performance.

The Theory of cash flow research began in the year 1950s which was coined in by Mason (1961). Based on its objectives, the theory was divided into four phases including liquidity management, excess or surplus cash management, cash control management and management of cash movement. Management of cash flow for businesses has been seen to be critical over the years since if not managed properly may result in inadequate working capital which in turn will impact the financial performance of the business negatively (Hastak & Halpin, 2010). Management of cash flow involves the monitoring, analysis and adjustment of cash for businesses to avoid shortage case which can be caused by significant gab between the inflow and out flow of cash.  Bridging of the businesses' cash flow gab can be achieved by regular cash flow analysis and cash flow forecasting which can lead to positive cash flow (Hastak & Halpin, 2010). Almeida, Campello and Weisbach (2004) defined cash flow in their empirical study to examine impact of financial constraints to the determinants of a business's behavior as index of money a business receives or pays out within a specific period for its business continuity. Almeida, Campello and Weisbach continued to say the operations of every business required cash since the business cannot be solvent if it is not able to generate enough cash from both internal and external sources. Similarly, in her study of relationship between earnings and cash flow using ordinary least square technique Ijoema (2016) also defined cash flow as difference between the available cash of an organization's opening balance, the amount available when a company starts up, and the total amount available at the end of a period, known as the closing balance. She went further to elaborate cash flow cannot only be defined in terms of profits or loss neither is it only impacted by accounts receivable and payables, inventory, expenditure, and debt.

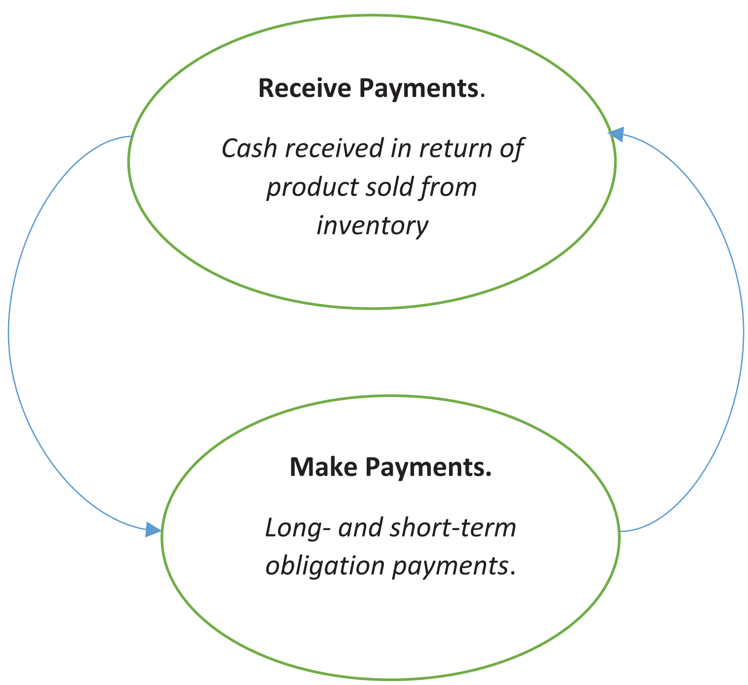
Cash flow management has been seen as a key element in the management of SMEs working capital and its finance capital expenditure (Atom, 2013). Working capital which is a representation of the difference between current assets of a business and its current liabilities working capital together with cash flow helps business's to identify whether or not they are able to meet their financial needs in future to stay afloat and not fail (Temtime, 2016). Having positive working capital enables a business to funds available for balanced cash flow cycle and also capability to address needs which are seasonal, explore business opportunities and to pay for unexpected expenses (Trinh, 2012). A business can be said to have positive working capital when its current assets are more than its liabilities, and which indicates its ability to fully cover its short-term liabilities on time. Trinh (2012) went further to say positive working capital therefore indicates a business has control over its cash flow and signals financial strength. On the contrary, if a business has excessive cash available as its working capital for longer period of time, it indicates the business is not investing or managing its assets effectively (Niklas & Viktor, 2014) Nevertheless negative working capital for a business indicates its current liabilities exceeds its current assets which also means shortage of cash leading to business not being able to fulfill its short term obligations.

Due to the importance of cash flow to business, there is need for SMEs to implement strategies which will positively impact the management of their cash flow (Lorek, Kenneth & Willinger, 2009) since effective cash flow management provides a benefit of SMEs identifying their cash performance, liquidity measure and prediction of their financial performance (Kroes & Manikas, 2014). Kroes & Manikas continued to emphasize in their research information on cash flow cash flow for SMEs has been seen be ranked higher than any other sources of information when it comes to making decision for their growth since a short fall in cash for businesses around the globe has led to their failure. Small businesses compared to larger businesses have been seen to struggle with the cash which has led to their lack of growth and their failure. According the Small Business Administration (SBA), In the united states 87% present of business were recorded to close in 1997 within their first year of startup, 73% closed within their 2 year of start up in the year 2000 and decrease to 51% in 2005 due to lack of cash flow. A latest statistic from the Small Business Admiration (SBA) shows only 49% of newly established businesses survive the first two years after their establishment and identified the failure rate reason to be the lack of adequate cash flow (SBA, 2017). According to Okafor (2012), cash flow management focuses on the optimization cash available for the business as well as the interest earned periodically. He continued to say management of cash flow involves cash flow controlling and planning which is suitable for the nature of the business's operation cycle. Depending on the operation cycle of their business, SMEs seek to acquire cash in order to bridge the gap between the period of businesses expenses and receiving funds for services provided to balance their cash flow. Bridging Cash flow gab for a business is very essential for a business to be able to meet its financial obligations or to explore business opportunities for expansion and growth. Van Horne, J. C. (2000) emphasized SMEs need to prepare cash budget by forecasting the inflow of cash and the out flow to able to balance its cash flow to prevent shortage of cash for the SME's operations. When the liquid assets of a business are increasing with long- and short-term obligations being paid on time, assets reinvested, and shareholders paid timely it indicates it has a positive cash flow. Adversely, if the operating activities of the business does not generate enough cash for its liquidity it indicates a negative cash flow. Negative cash flow can occur as result of account receivables and inventory delays profits or when excessive cash is spent on capital expenditures.

Having a positive cash flow aids vital aspect of working capital which includes accounts receivables, account payables and management of inventory which leads to cash enhancement of the business (Leadbetter & Cooke. R. A, 2003). A business can be said to have positive cash flow if the inflow of cash to the business exceeds the outflow of cash which indicates healthy financial status though it cannot me the only indicator or predictor for the financial health of the business (Chastain & Cianciolo, 2001). Nevertheless, negative cash flow is an indication the cash out flow of a business exceeds it cash inflow which can be caused by obsolete inventory and late or inconsistent collection of account receivables (Chastain & Cianciolo 2001). Managing cash flow of a business is therefore essential to the health of the business as it is a determinant of the business' ability to generate sufficient cash to cover operating costs such as paying employees, paying rent, and servicing outstanding debt to sustain the business which can be modelled as shown below.

Figure 2: Cash flow Cycle

Source: Designed for Study



It can therefore be said positive cash flow is integral to growth and maintenance of a business (Abel, 2008). Positive cash flow is an integral aspect of a businesses' financial health for its growth, expansion and maintenance. Adequate Cash flow management practices does benefit businesses in terms of having better opportunity to obtain funds from their creditors as well as reducing reduction of their dependence on external financing during its growth and expansion in the business life cycle. The first step a business has to take to support the financial health and success through cash flow management is to effectively manage how the business receives payments from customers and also make its payments (Ahmed, Ahmed & Abdullah, 2018). Accepting multiple, convenient and flexible forms of payments from customers gives a business access to fast funding which is a key to healthy cash flow. Nevertheless, a business can also have better control over how it makes payments by paying most important bills first and also ask for flexible payments options to have funds readily available for other financial obligations as they come up.

**Importance of Cash Flow Management in SMEs**

With the world now being global marketplace and every business looking to penetrate the global market to be successful, every business is required to be innovative and think differently about how to continue staying in business using various strategic business management methods. The edge of businesses striving to stay in business in the competitive global market has increased as well as the need for companies to sustain their business and not focus solely their profitability. Businesses have the need to use more innovative approach towards sustainability and profitability simultaneously since a business can be profitable and still not be sustained after a number of years in business and fail (Reimers-Hild, 2010). SMEs around the globe are not exceptions when it comes to phenomena being it in developed or emerging economies. For the purpose of sustainability and longevity, it has become important for businesses being large or small to development innovative business strategies to measure their performance. For businesses to be profitable, there is a need for them to ensure they have access to the adequate resources needed to have continuity and longevity in offering their products and services in the future and not fail after few years of their start up (Mensah, 2004). Around the globe, cash for businesses is generated and managed through sustaining and expansion of the business by optimization of cash and capital which is invested in the business for its growth (SBA, 2016). Different researchers have therefore utilized specific metrics to measure sustainability depending on their research and the research questions to be answered. For the purpose of this study, financial performance will be focused on as an Indicator to measure sustainability performance of SMEs, which will be measured with return on investment. Return on investment which measures financial performance of a business can be defined as a metric which determines the amount of money business does generate for its capital invested which can be impacted either negatively of positively by both internal and external factors.

## Cash Flow Management Challenges faced by SME

### Inventory / Stock Management Challenges

In a study done by Market wire (2013), it was concluded 75% of SMEs did not have any form of inventory system for their business. In his research (2019) found 45% of Small businesses in Western region of Ghana were using basic control measures for their inventory management. He continued to say 32% of the SMEs in the region were simply using pen and paper to document and track their inventory. Management of inventory for business is very important since it does assist in the demand and supply of good produced by the business to keep it running Esther (2015). Ester (2015), continued to define Inventory as the stock or storage of goods for a business. To better manage their inventory businesses, have to be able to their products on hand or nearby for easy accessibility to meet the demand of its customers. Arrelid and Backman (2012) categorized inventories into six main types, namely:

**Cycle Stock.** Cycle Stock results from the process of replenishing to meet the perceived demands. Cycle stock inventory relates to a business predicting the demand for products and being proactive with their replenishing times accurately.

**Speculative Stock.** This is process of inventory according to Arrelid & Backman (2012) focuses purchasing inventory based on prices changes and hike speculations to prevent buying at higher prices. Speculative stock therefore operates with inventory held for pricing reasons other than current demand satisfaction.

**Safety Stock.** Safety of Buffer Stock holds stock in excess due to unpredicted demand of goods or products within a specific time frame. Safety stocks inventory method is used to cover when portion of a businesses' average inventory is devoted for coverage of short-range variation of demand.

**Pipeline Inventory.** Pipeline inventory which is also known as In-Transit inventory is defined as inventory that is in process of getting to the business from another location. The business may consider inventory route as part of its cycle stock regardless of its unavailability to be sold until it arrives at its destination.

**Seasonal Stock Inventory**. Seasonal Stock Inventory composes of inventory being accumulated before a season by being proactive to meet the demand of products or goods.

**Obsolete Stock Inventor.** Obsolete stock refers to products or goods which are seen to be out of demand for a specific period of time. For example, they could be outdated due to advancement in technology, deteriorated or simply outdated.

### Cash Flow Forecasting (Net Cash Movement) Challenges

Finding from a study by Valtteri (2016) suggested that cash flow forecasting is a vital tool as predictors of future cash flows needs a business which could be operating cash flow, financing cash flow or investing cash flow. Nair (2016) also did a study of the forecasting abilities of operating cash flows and net income with tested by ordinary least-squares regressions and found out furcating cash flow was very vital to the growth and expansion of SMEs. Cash flow forecasting is a core planning component for financial planning of a business. It is a process of identifying an estimate of a businesses' future financial position and helps planning proactively for ongoing, recurring and future expenses (Pitkanen, 2016). Forecasting cash flow could be direct or indirect. Cash flow forecasting enables businesses to identify when they are more likely to experience surplus in their cash and months which they might have deficits (Glaum, 2018). Cash flow forecasting is deemed important for businesses for a number of reasons which includes identifying problems involved with potential shortfalls in several months ahead of the businesses' operating cycle (Pitkanen, 2016). Another benefit is being able to mitigate the impact of a cash flow shortage by taking step like negotiating better terms from suppliers and refinancing debt

Forecasting cash flow which can be calculated as:

Net Cash Movement = Operating Activities +Financing Activities + Investing Activities.

**Lack of Specialized Employees**

SMEs have problem with their cash flow due to lack of financial experience necessary to make financial decision for their business (Kroes & Manikas, 2014). This challenge can be related to lack of specialized employees for example Accounts to make financial decisions for the SMEs. SMEs in South Africa indicated employing specialized staff was a challenge for them in a study by Kamala. & Enow, (2016). In their research, Kamala. & Enow, (2016) stated SMEs owners have the responsibility of handling financial activities of their business even when they do not have the necessary financial management knowledge. To overcome this challenge of being overwhelmed managing daily financial activities and lack of profitability due to lack of knowledge, Owners of SMEs must employ specialized and competent staff to manage their financial activities.

From quantitative study conducted on 80 SMEs by Oyelana, Fiseha & Adeniyi, (2017) in South Africa, it was concluded one of the major challenges face by SME was the lack of capital to employ qualified personnel to manage their financial activities. Oyelana, Fiseha & Adeniyi, (2017) continued to say as result, SMEs are not able to provide audited financial statements when in need of credit to help with business expansion, investment and business expenses. Amoako (2013) also emphasized SMEs without adequate financial statements are not able to access credit from financial institutions since it’s an essential requirement in accessing credit.

**Lack of banking relationship**

Establishing banking relationship for SMEs gives them access to both secured and unsecured credit options for example business lines of credit to manage their businesses expenses including capital expenditure, planning for unexpected expense, seasonality's, expansion and investment opportunities'. When SMEs build financial history with financial institutions for their businesses, it gives them leverage of having access to lending options since their financial institutions tend to have access to evaluating their capability of repaying their financial obligations. In his research, (Prosser, 2018) Emphasized the importance of SMEs having bank account. He indicated SMEs are able monitor and determine their cash flow and profitability by tracking their account statements with cash coming into their account by analyzing their debits and credits. Establishing banking relationship also enhances professionalism of the business as well as indicating the business is more established and legitimate (Ekpu, 2015). Ekpu continued to emphasize banking relationship is one of the characteristics banks analyze before lending to SMEs. He continued to say banks are attracted to SMEs with a longer period of relationship built with the bank compared to SME with less or no banking history or relationship.

**Lack of Cash Flow Statements**

Cash flow statement refers to financial statement that indicates the inflow and out flow of cash in a business during a specified timeframe. Piatti (2014) also explained cash flow statement shows the incomings and outgoings of a business's cash within a given time frame which can be divided in three categories namely Financing (Cash used for borrowing or lending), Operations ( Cash used during daily operations) and Investing ( Cash used to purchase equipment or other assets).Reviewing of cash flow statement provides positive or negative cash flow status of the business Piatte (2014). Cash flow statement together with income statement and balance sheets provides and overview of the financial health of a business. It is therefore important for SMEs to maintain consistent maintenance of cash flow statement. Parrish, F. (2017) identified maintenance of cash flow as one of the major challenges faced by SME. He continued to say most SMEs in a survey indicated they didn't have resources to aid cash flow statement preparation which can be calculated as shown below:

Cash flows statement = Operating Activities +Financing Activities + Investing Activities.

Operating cash flow and creditworthiness assessment.

**Debtor Management**

Collection of debt is deemed to a cash flow management practice which is most challenging for SMEs. A report from Mena Report, (2019) indicated review of cash flow statement is critical for business because it shows how much cash is received and spent on operating, investing and financing activities. Mena Report (2019 continued to emphasize 36% of SMEs indicated were wouldn't be able to how soon they are able to collect their account receivables, 41% of business indicated they needed to increase effort in debtor collection effort. According to the report, 23% of the businesses surveyed indicated they utilize in house strategy for their debt collection since they could not afford external debt collection agencies.

According to Bush (2018), SMEs struggle to meet the financial obligation due to lack of account receivables being paid on time by their debtors which could take up to 90 days waiting period for debtors to pay on their accounts. Bush (2018) also found some SMEs offered multiple payment options and discounts for early payment to encourage timely payments from customers.

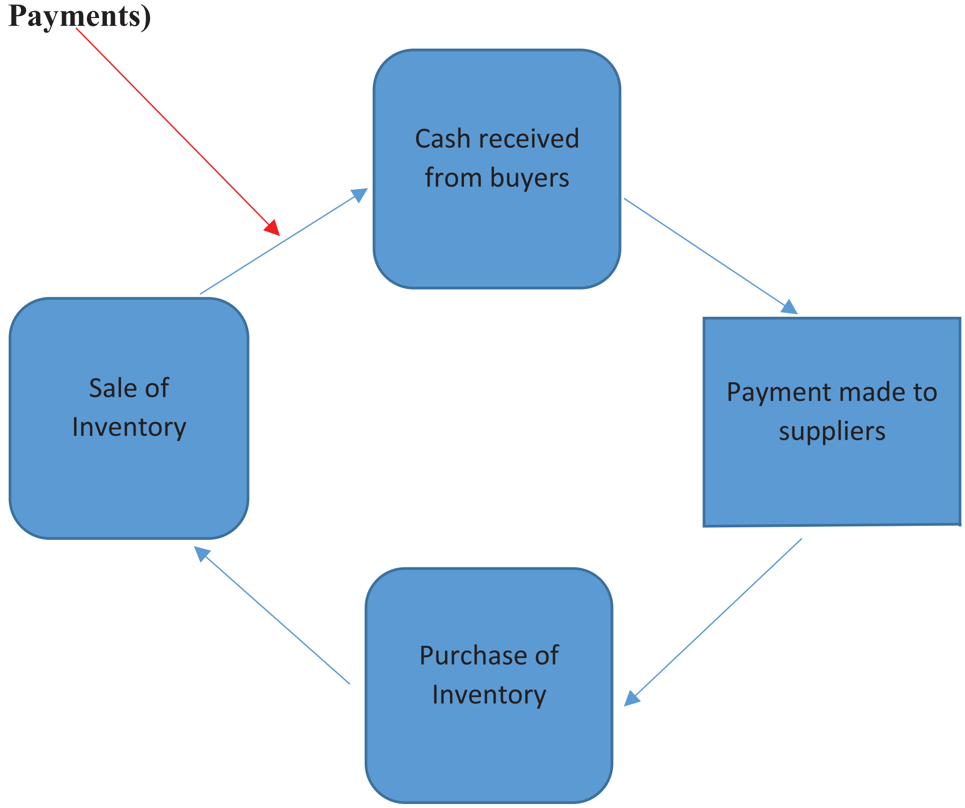
For example, having discounts for early payments as well as making it easier for customers to make payments more quickly. For example, 1/10, Net 30 days, which means client gets 1% discounts of invoice if payment is made 10 days earlier than 30days?

Debtor management becomes a challenge when debtors take lengthy period to pay their accounts which affects the operating cycle of the business as illustrated below

Figure 3. Business Operating Life Cycle.

Source: Designed for Study

**(Delay in Payments)**




**Bad Debt Challenges**

When business owners are not able to collect debt of their debtors due to their inability to pay back, it becomes a bad debt. According to (Isaac, 2017), bad debt is often as a result of the debtor going out of business and going bankrupt. Isaac (2017) further emphasized a research by Bibby Financial Services international indicated an increase by 70 percent for the average levels of bad debt of SMEs within a year. Amuzu (2010) in his research concluded businesses in Ghana have indicated increase in business going bankrupt leaving their creditors with bad debts and written off. Whilst effort to collect outstanding debt may results in business losses in initial stages, some customer's might want to pay off their outstanding debt in future. Based on this idea of possibly retrieving outstanding debt, entries of debts need to be kept in businesses general ledger for future reference FSB (2017). The impact of bad debt could be businesses not being able to pay their creditors, which could affect their stocking and inventory since suppliers will decline their request for goods restock due to their current outstanding debts. Isaac (2017) further emphasized a research by Bibby Financial Services international indicated an increase by 70 percent for the average levels of bad debt of SMEs within a year. According to survey done by Federation of Small Businesses (FSB) by on 1000 SMEs between May and June of 2017, it was concluded the average bad debt and debt written off had did increase by 70 percent compare to the results from the previous year. Federation of Small Businesses (FSB) survey further revealed that one in five SMEs did report bad debt from clients who filed bankruptcy.

**Creditor's Payments/ Expenses Analysis Challenge**

Gaining better control over cash flow options with options for making payments when the business wants to. In a report by Bergthaler, Kang, & Liu (2015), many suppliers offer a 30, 60 and 90 payment terms without interest charges to their clients though it was identified most client did not take advantage of these payment options to stretch their payment. Bergthaler, Kang, & Liu (2015) continued to emphasize having control overpaying most important bills first gives a business leverage of having funds readily available to manage other immediate and day to day expenses of the business to keep it running. According to a study by the Small Business Administration SBA (2016), one of out of five Small Businesses indicated they had challenges keeping up with their payment to creditors and how to avoid interest payments due to late payment on their accounts.

Tracking the spending of a business in terms is analyzing expenses is essential since it helps for the business to stay profitable as well as predicting trends for its expenses to make necessary changes when the need arises. Song (2014), indicated 60% of SMEs in China did have the challenge of analyzing their expenses due to lack of adequate knowledge as well as lack of cost control processes and system. The second challenge he identified was lack of consistency in the expenses analysis by SME who utilize manual processes for analysis. He further elaborated SMEs with the knowledge of expense analysis constantly gained competitive edge over their competitor since they were able to stay profitable and sustainable. Expense ratio can be calculated as

Expense Ratio = (Operating Expense / Net Sales) x 100

**Lack of interest charges**

In a report generated by Gaskell, (2019), the author indicated lack of interest charges by SMEs on overdue account of debtors does pose negative impact on cash flow of the business. Gaskell (2019) continued to highlight when debtors prolong payment of their debt, the business also takes longer to pay back their supplier as well since inventory sold are not paid for. This simply means account payable for the business becomes greater than receivable which negatively impacts the businesses which in turn does impact. To avoid delay in debtors repaying debt, SMEs have to implement charging of interest on late payment. When SMEs implement interest on late and overdue payments, debtors will be prompted to pay back on their account on time. Huang, When, & Li. (2014) revealed when business register running low on cash, it indicates cash gab which can be described as cash tied up in operating cycle for a short period of time. The Authors continued to say the cash gab for a business becomes more costly when it becomes longer.

## Review of Empirical Studies

The importance of cash flow to the growth and financial performance of businesses around the globe has attracted various researchers to investigate cash flow management practices utilized by these businesses and its impact on their cash flow and have defined cash flow in various ways based on their research findings. In their qualitative case study on Cash flow ratios in predicting soundness of investment by testing the significance cash flow ratios in the evaluation a company's financial performance, Prowal and Tainis (2013), concluded with their finding and results emphasizing the relationship between cash flow management and the financial performance of a company. They concluded for a business to be successful, it needed to generate enough cash to meet the need for its daily operations, meet tax obligations and also pay dividend to its shareholders. In Nigeria, Nwanyanwu (2015) did a qualitative research based on the evaluation of cash flow and organizational performance of the hospitality and media industry. The study used a pilot study utilizing 45 Small medium enterprises as samples within the industry. The study concluded from findings and results theses SMEs had to develop adequate cash flow management strategies to improve their cash flow to enhance their financial performance. Adelegan (2003) also in Nigeria carried out a case study to analyze the relationship between cash flow and the changes in dividend gained by SMEs. In the study the researcher employed ordinary least square (OLS) for his data analysis on 63 firms for a period 1984-1997. The study's findings and results revealed a positive significance between cash flow and the performance of a firm. From a case study of Cash flow as performance measurement for listed companies in emerging economies the Ghana example by Amuzu (2010), Analysis of Cash flow was found to be a better measure of a firm's performance and its competitiveness in emerging markets. In a similar study to Maxwell Samuel Amuzu (2010), using multiple regression for data analysis, Watson (2005), did examine the association of various earnings and the measure of cash flow for a firm's performance and returns on its stock. From the study, a significant relationship between cash flow and the performance of a firm was revealed through a qualitative case study. Ahmed & Ahmed & Abdullah (2018) in their research to analyze sustenance of SMEs through resources availability and cash management practices using the Partial least Squares concluded cash flow management does have direct impact the sustainability of SMEs. Enow and Kamala did an qualitative study on the cash flow management practices of SMEs and its impact on the profitability, growth, survival and its success and concluded SMEs with positive cash flow management had a higher survival rate within their first two years if start up. In regard to the impact of cash flow on financial performance of firms, Kroes & Manika (2014) in their study examined the impact of cash flow management on financial performance of a company and concluded by reducing the measured number of days of sales outstanding which is account receivables and also reducing the number of inventory outstanding, a firm will be able to improve its financial performance.

## Cash Flow Ratios and Financial performance

Around the globe investors, creditors and managers of businesses have employed the use of financial ratios analysis from financial statements to assess financial performance businesses. For example, to evaluate the risk associated with their investments, Wall Street analyst and lending companies have utilized cash flow ratios including Operation Cash Flow ratio, Cash Conversion cycle, Inventory Conversion Ratio, Account Receivables Ratio, account payable ratio, Free Cash Flow ratio and Current ratio.

### Cash Conversion Cycle

The Cash Conversion Cycle of a small business comprises of various ratios which are inventory turnover management, account receivable management, and account payables. These ratios are vital to the measurement of the cash conversion cycle metric because businesses need be able to calculate the conversion period for their inventory, receivables and how long they can defer their payables before they can efficiently calculate their cash conversion cycle. The cash conversion cycle will be calculated using the time SME takes to sell inventory and collects its receivables less the time the SME takes to pay its receivables (Wang, 2010). This will be computed as Cash Conversion Cycle (CCC) = Days Inventory Outstanding + Days Sales Outstanding – Days Payable Outstanding. A short cash conversion cycle will help SMEs to quickly have cash acquisition which can be used for repayment of its debts and additional purchases to replenish their inventory. A lower cash conversion cycle will mean the SME is healthier in terms of its profitability which will be measured by return on investments. To shorten the cash conversion cycle, SMEs will be expected to speed up payments from their customers and delay payments they will make to their suppliers.

**Inventory Conversion Ratio**

The inventory conversion period for small businesses will be determined by the average time a business is able to convert its inventory into finished goods and how long it takes for those goods to be sold which also helps the small business owner to identify how long it takes from cash being paid for inventory and when the business is paid for its inventory by customers. This turnover ratio will also be measured with the number of times a small business sells and have its inventory replaced within inventory during a given period of time (Zakari & Saidu, 2010). Businesses will be expected to have high inventory turnover since it will measure the efficiency of how a business controls its merchandise. A higher inventory turnover for business will show goods are being sold at a faster rate with a high demand of products whilst a lower indicates slow or inadequate sales as well as products offered by a business not having a high demand.

Inventory turnover of a business will indicate how a business can sell its inventory without over buying and wasting its resources with stoking of inventory which is not salable which also shows the liquidity of the company's inventory. Inventory conversion ratio of small business is therefore vital measurement for cash conversion cycle metric since it shows how small businesses are able to turn their inventory to cash which aid their profitability.

To calculate the inventory conversion ratio of the business the following steps will be taken:

(a) Identify the beginning and ending inventory of the business on its balance sheet which will determine how much inventory the business has at the beginning of the year and the end as well and an average calculated by dividing the total value by two.

(b) Identify the cost of goods on the businesses income statement.

(c) Inventory turn will then be calculated by dividing the Cost of Goods Sold by the Average

The efficiency of days of inventory turnover will be measured by the number of days the SME takes to sell its inventory.

**Account Receivables Ratio**

Accounts receivable is money owed by customers to a business for a service provided or product sold to them. The timeline for businesses to receive their payments from customer is very vital. Efficiency of account receivables for small businesses will be measured by practices businesses followed to reduce the timeline of receiving payments (Kumor, 2013). Higher ratios will indicate debts from customers are being paid at a fast rate and prevent writing of bad debts which will improve the businesses cash flow to also pay for its financial obligations for example paying employees. Activities wise businesses will be expected to consider practices for example: Considering shortening Payment Terms extended to customer. Businesses are not obligated to give their customers longer payment terms for example 30 day or more payment terms. The ability for businesses to offer shorter terms to customers and still retain their customers with payment received is important for its financial performance and competitive advantage as well as receiving payment to improve its cash flow.

**Account payables turnover ratio**

This metric will be measured with numbers from the balance sheet and income statement of the financial statements. This ratio can determine the rate at which SMEs pay off their suppliers and measures their liquidity. Ideally, SMEs will be expected to pay their bills in less than 30 days since most suppliers do offer special discounts as well as save on interest payments in terms of credit obligations.

$$\text{Accounts payable turnover ratio} = \frac{\text{Net credit purchases}}{\text{Average accounts payable}}$$

The account payable turnover ratio will indicate to creditors the short-term liquidity and cash flow efficiency of the SME. A higher ratio will indicate prompt payments are made to suppliers and creditors whilst a lower ratio might mean SME has cash flow problems or has been able to secure favorable payment terms with creditors which allows them to pay the debt latter without any penalties.

**Free Cash Flow**

Free Cash flow of a small business determines the cash the business has available after paying for its expenses to maintain its assets or develop them (Jensen. 2015). Small businesses can determine the value of their free cash flow by examining their capital expenditure and their operating cash flow. A business which has a positive free cash flow can be said to have high performance. The value of free cash flow can be obtained by subtracting capital expenditures from operating cash flow of a business (Jensen. 2015).

When the free cash flow is examined across several years of a small businesses financial statement as a benchmark and growth is identified, it will indicate a growth in the earnings of the SME. SMEs with growing free cash flows will also be seen to be growing in revenue, managing their assets well and their cost of operations. Free cash flow is important because it is also money available to business owners to build their business, expand product offerings and undertake other activities that increase the businesses long-term value. A higher Free cash flow ratio which is greater than 1 will indicate SME has generated more cash in a period compared to what it needs to pay off its current liabilities. Whilst a ratio less than 1 will indicate the firm has not generated enough cash to cover its current liabilities. A lower ratio less than 1 will indicate SME needs more capital. SME will be expected the therefore have a ratio higher than 1 to be able to cover its current liabilities for its growth.

**Operating Cash Flow ratio**

Operating cash flow ratio is small businesses measures how well they pay off their current liabilities with cash generated from their core business operations solely for example from sale of their products or services provided (Zeller & Stanko,1994). Cash flow ratio shows financial institutions and investors how healthy and valuable are in terms of extending lending offers to them or investing. In their empirical study of retail firm's activity Kamala & Enow., (2008) proved an empirical evidence of operation cash flow ratio showed a vivid aspect the retail firm's activity. After analyzing the operating cash flow ratio of a business, if the value is less than 1, it means the business has generated less cash in the period than it needs to pay off its short-term liabilities indicating the business's need for more capital based on this, Financial intuitions prefer a business with a higher operating cash flow ratios. A business with a negative operating cash flow is seen not to be able to generate sufficient revenue from its core operations to sustain itself to be able to expand and grow.

As the operating cash flow ratio of SME will measure its short-term liquidity, the expected ratio value will be 1 and above since it is preferred by investors, lenders and creditors. A ratio of more than 1 is preferred because if an operation cash flow ratio of less than 1 for the SME, will mean it is generating less cash from its operations than what is needed to pay-off its short-term obligations as well as indicate a need for more capital. SMEs with higher operating cash flow ratios will be considered to have a good financial health. As the operating cash flow ratio of SME will measure its short-term liquidity, the expected ratio value will be 1 and above since it is preferred by investors, lenders and creditors.

**Current Ratio**

Current Ratio of a business is used to measure its short-term liquidity position and well as providing a quantitative relationship between its current assets and current liabilities such as salary, taxes and account payables. Current assets include resources that the business converts into cash quickly within a year's time or less for example cash, account receivables, prepaid expenses, and marketable securities (Durrah, Rahman, Jamil & Ghafeer 2016). Current ratio of a business determines if the business has sufficient resources for payment of its short term financial obligations to be able to stay afloat for a year at least and identifies the number of times it can pay its current debt obligations based on its liquid asset owned (Asamoah, 2010). The current ratio can be calculated from the business's balance sheet by dividing its current assets by current liabilities. Asamoah (2010) went further to emphasize, to be healthy enough to pay it obligations, a business's current ratio is expected to be more than one since it will suggest the financial well-being of the SME. Any value below 1 will suggest inefficiency in the cash inflow for financial obligations. However, in his study descriptive research done to analyses the performance of pharmaceutical companies in Bangladesh using financial ratios retrieved from the financial statement of the companies from 2007 to 2008, Hossan (2010) identified if the business also has a very high number for its current ratio, then it suggest it's leaving excess cash unused and not invested to expand and grow the business.

To be healthy enough to pay it obligations, business's current ratio will be expected to be more than one since it will suggest the financial well-being of the SME. Any value below 1 will suggest inefficiency in the cash inflow for financial obligations. However, if the business also has a very high number for its current ratio, then it suggests it's leaving excess cash unused and not invested to expand and grow the business.

**Quick Ratio**

Quick ratio of SME measures liquidity of a business which can be calculated as Quick assets/ Current Liabilities, Where Quick Assets = Cash + Marketable Securities + Accounts Receivables and Current Liabilities = Accounts Payable + Income Taxes Payable + Current Portion of Long-Term Debt (Gallo, 2015). Gallo continued to say quick ratio is considered the ability of the SME to covert its assets into cash in order to pay its debt obligation with a 12-month period and also determines the number of dollars in cash and account receivables for every $ 1 in current liabilities of the SME. In their study of a sample of reports from analysts of equity which covered publicly traded firms in Mexico, Pech, and Noguera. & White (2015) identified a quick ratio lower than 1:1 may indicate that the company relies too much on inventory or other assets to pay its short-term liabilities. Pech, Noguera & White concluded businesses are expected to have ratio of 1 or higher to indicate higher cash value available to pay its short – term liabilities.

# CHAPTER THREE: METHODOLOGY

The purpose of this research was to utilize Quantitative Descriptive and Qualitative Case Study method to investigate the effect of cash flow management practices of specific Ghanaian SMEs on their financial performance. Specifically, the study was designed to uncover how Cash Flow Management Practices impact Financial Performance of an SME. The study was designed to answer the overarching question of the effect of cash flow management practices on the financial performance of SMEs through addressing the following research questions:

- What is the relationship between current individual cash flow management practices utilized by SME in Accra and their financial performance?
- What is the combined effect of cash flow management practices on financial performance of SMEs in Accra, Ghana?
- What impact does the knowledge possessed on cash flow management have on financial performance of SMEs in Accra Ghana?

## Research Method

While the focus of the study was the circumstances surrounding the lack of adequate cash flow for SMEs, the participants for the study were Owners of 20 SMEs in the Greater Accra Region of Ghana. The researcher sought the consent of the business owners to voluntarily release their financial statement, take part in a survey and interviews to answer the formulated research questions. The participants were selected based on the number of years of their SMEs being in existence which was preferably two years with consistent documentation of their financial statements.

The methodology for this study was based on Quantitative Descriptive and Qualitative Case Study research design. Researchers have a variety of research designs available to approach a research study. Research design can be defined as the structures, outlines, and strategies followed by researchers to obtain answers to formulated research questions (Creswell, 2010). The strategy chosen provides specific directions for procedures in the research design. The research design chosen should be mainly based on the research question, research problem, and the objective of the study. Creswell (2010), classified the various research designs as historical, descriptive, associative, casual, and experimental.

When SMEs have positive cash flow, they tend to have control over making and receiving payments, capital expenditures, capital management, and profitability, and when SMEs have adequate financial statement analysis, changes in financial positions can be identified to aid profitability management in terms of changes that have to be initiated for the SMEs' financial performance and growth. Improving the financial performance of these SMEs is important because it can help in elevation of two-year failure from the startup of SMEs to at least 10 years to be more sustainable with implement positive cash flow management practices utilized by successful small businesses in the western world. The study will examine how metrics of cash flow management including, Specialized Staff (SS),Cash Flow Forecasting (CFF), Banking Relationship(BR), Inventory Management(IM) , Debtor Management(DM), Bad Debt Management (BDM) , Creditor's Payment(CP), Interest Payment(IM), Cash Flow Statements(CFS) impact the financial performance of SMEs.

The dependent variable for the study was financial performance. The independent variable was Cash flow management practices measured with following metrics (Specialized Staff (SS),Cash Flow Forecasting (CFF), Banking Relationship(BR), Inventory Management(IM) , Debtor Management(DM), Bad Debt Management (BDM) , Creditor's Payment(CP), Interest Payment(IM), Cash Flow Statements(CFS)) The financial statements will include balance sheet, income statement and cash flow statement. Additionally, the financial statement will entail components to calculate cash flow ratios (for example current liabilities, current assets, cash flow from operations and inventory). A Case Study was selected for the qualitative study due to in-depth focus on improving financial performance of SME to increase their sustainability rate. The case study design will be suitable design for the study because it will allow the impact of cash flow management on financial performance of SME to be investigated (Yin, 2014). According to Creswell (2008), in a case study research design, the researcher explores a problem or an existing problem using critical and analytical thinking to focus on specific cases and study them within their specific context. Such studies also investigate contemporary real-life events through a vivid contextual analysis of a limited number of events or conditions, and they investigate how they relate to one another. The case study research design will also make it possible for development of recommendations based on findings from the study which will have a significant impact on SMEs if implemented.

A multiple linear regression analysis was employed to determine the relationship variables for the study. Multiple linear regression will be a suitable study because the purpose of the study is to establish the relationship between multiple variables. Once the financial statements which will include cash flow statement have been retrieved from the SME owners voluntarily, the next step will be to analyze the data received to make it manageable. Descriptive statistics was used to organize and present a summary of the secondary data which will be collected for the research. The data collected was analyzed by using descriptive statistic which will include standard deviation, median and mean using Statistical Package for Social Sciences (SPSS) since analytically reduced data are useful for data analysis and make data manageable for analysis (Roberts, 2017). The use of descriptive statistics analysis identified how adequate and useful data will be to the research to answer the research questions and objectives as well as aid the comparison of variables (Creswell, 2008).

Relationship between Specialized Staff (SS), Cash Flow Forecasting (CFF), Banking Relationship (BR), Inventory Management(IM) , Debtor Management(DM),Creditor Management (CM ), Cash Flow Statements(CFS) was tested using the t-test while F-test. Analysis of variance (ANOVA) was employed for confirmation of the goodness of fit with level of significance within the regression model developed for the study. Because the study seeked to establish the relationship between the cash flow management and financial performance, Pearson's correlation was employed initially to identify the relationships among the variables, which was used to measure the impact of cash flow characteristics on the financial performance of SMEs in Accra, Ghana. Previous studies have proven correlation and regression analysis techniques to be most appropriate to examine the relationship between cash flow management and financial performance which justifies the use of correlation analysis regression analysis and descriptive statistics for data analysis for the research study. Pearson's coefficient of correlation was denoted by "r" with a value range of +1 to −1 to analyze the data collected to draw associations that exist between variables. The coefficient was be used to identify whether there is positive, negative, or no associations between the study variables, which are the cash flow characteristics and financial performance of SMEs in Accra, Ghana. After analyzing the data, if the value obtained was zero, there was be an indication of no relationship between the variables; when it was less than zero, it meant there was a negative association; and when it is greater than zero, there was a positive association between the variables.

## Participants

Populations and sampling are critical components for the reliability and validity of a study; therefore, they have to be chosen carefully by researchers. In his research, Homer (2013) mentioned that researchers use sampling to choose specific sources of data to address their research objectives. Homer (2013) identified the two main sampling methods as probability sampling and nonprobability sampling. Probability sampling is used to select members of a population for a study randomly by ensuring all members have an equal selection opportunity, which can include random sampling, stratified sampling, or cluster random sampling. Types of nonprobability sampling methods include convenience or accidental sampling, purposive sampling, diversity sampling, snowball sampling, and expert sampling. Researchers choose their sampling method and their study population based on their research objectives, their conceptual framework, and the ability of the population sample to release data necessary for the study

The data collected included SMEs located in the Greater Accra Region who have been in existence over a period of two years and within different industries include clothing industry, hair care industry, shipping industry, and technology industry. There were 20 SMEs which fell within the set parameters of the study were be selected for several reasons. The first reason being Ghana having ten regions, namely Greater Accra, the central region, the eastern region, the western region, the Ashanti Region, the northern region, the upper west region, upper west, the Volta Region, and the Brong Ahafo region with Greater Accra as the capital and Largest. With Greater Accra being the capital and largest city, with the most SMEs, more significant labor force, and higher volume of other trading services, the 20 SMEs selected can be considered to represent SMEs in the country, thus achieving the objectives of the study. The second reason being number of years of existence. The number of years of participants existence was also considered which were preferably SMEs which been in existence two years or more because the study looked to have two years of financial statement for fully understand the financial performance of the chosen SMEs. Finally, having SMEs within the various industries had to have a better understanding of all the cash flow management of each industry.

## Research Instruments

The main purpose of this research was to examine the relationship between cash flow management as independent variable and financial performance as dependent variable. Cash flow management as the independent variable was measured with cash flow management practices including Specialized Staff (SS), Cash Flow Forecasting (CFF), Banking Relationship (BR), Inventory Management (IM), Debtor Management (DM), Creditor Management (CM), and Cash Flow Statements (CFS). Since dependent variable Financial Performance could not be measured directly, it was measured indirectly using indicated variable return on investment. Various researchers have measured sustainability using different indicated variables. Ghebregiorgis and Atewebrhan (2016) used return on total assets (ROA), return on equity (ROE), and return on investment (ROI) to measure financial performance. Wheelock and Gilbert (2007) also utilized four indicated variables: power of asset earning, ROE, net profit on sales, and ROI. Most researchers utilize ROA, ROE, and ROI to measure sustainability. This study utilized Return on Investment (ROI) to measure financial performance. The study was used to determine which independent variables (Specialized Staff (SS),Cash Flow Forecasting (CFF), Banking Relationship(BR) , Inventory Management(IM) , Debtor Management(DM) , Creditor's Payment(CP), and Cash Flow Statements(CFS)), will have the highest impact on financial performance. The impact of the independent variables was determined by employing a multiple linear regression with the use of beta coefficient estimation. These independent variables (Specialized Staff (SS), Cash Flow Forecasting (CFF), Banking Relationship(BR) , Inventory Management(IM) , Debtor Management(DM) , Creditor's Payment(CP), and Cash Flow Statements(CFS)), were also be used to run a regression model. Data received was for be requested for a period of 2 years from 2016 to 2018. Long term Data for the study was chosen since it will determine the trend of relationship between the dependent and independent variables. For these dependent and independent variables to be used to show their efficiency, they must be defined.

This study began by researching the various cash flow management practices such as:

**Inventory / Stock Management**

Management of inventory for business is very important since it does assist in the demand and supply of good produced by the business to keep it running Esther (2015). Ester (2015), continued to define Inventory as the stock or storage of goods for a business. To better manage their inventory businesses, have to be able to their products on hand or nearby for easy accessibility to meet the demand of its customers. Arrelid and Backman (2012) categorized inventories into six main types, namely: Cycle Stock, Speculative Stock Safety Stock, Pipeline Inventory, Seasonal Stock Inventory and Obsolete Stock Inventor.

**Cash Flow Forecasting (Net Cash Movement)**

Finding from a study by Valtteri (2016) suggested that cash flow forecasting is a vital tool as predictors of future cash flows needs a business which could be operating cash flow, financing cash flow or investing cash flow. Cash flow forecasting is a process of identifying an estimate of a businesses' future financial position and helps planning proactively for ongoing, recurring and future expenses (Pitkanen, 2016). Forecasting cash flow could be direct or indirect (Glaum, 2018). Cash flow forecasting is deemed important for businesses for a number of reasons which includes identifying problems involved with potential shortfalls in several months ahead of the businesses' operating cycle. According to (Pitkanen, 2016), forecasting cash flow can be calculated as:

Net Cash Movement = Operating Activities +Financing Activities + Investing Activities.

**Specialized Employees**

SMEs have problem with their cash flow due to lack of financial experience necessary to make financial decision for their business (Kroes & Manikas, 2014). This challenge can be related to lack of specialized employees for example Accounts to make financial decisions for the SMEs. SMEs in South Africa indicated employing specialized staff was a challenge for them in a study by Kamala. & Enow, (2016).

**Banking relationship**

Establishing banking relationship for SMEs gives them access to both secured and unsecured credit options for example business lines of credit to manage their businesses expenses including capital expenditure, planning for unexpected expense, seasonality's, expansion and investment opportunities'. When SMEs build financial history with financial institutions for their businesses, it gives them leverage of having access to lending options since their financial institutions tend to have access to evaluating their capability of repaying their financial obligations.

**Cash Flow Statements**

Cash flow statement refers to financial statement that indicates the inflow and out flow of cash in a business during a specified timeframe. Piatti (2014) also explained cash flow statement shows the incomings and outgoings of a business's cash within a given time frame which can be divided in three categories namely Financing (Cash used for borrowing or lending), Operations ( Cash used during daily operations) and Investing ( Cash used to purchase equipment or other assets).Reviewing of cash flow statement provides positive or negative cash flow status of the business which can be calculated as shown below:

Cash flows statement = Operating Activities +Financing Activities + Investing Activities.

Operating cash flow and creditworthiness assessment. (Parrish, 2017)

**Debtor Management**

Collection of debt is deemed to a cash flow management practice which is most challenging for SMEs. According to Bush (2018), SMEs struggle to meet the financial obligation due to lack of account receivables being paid on time by their debtors which could take up to 90 days waiting period for debtors to pay on their accounts. Bush (2018) also found some SMEs offered multiple payment options and discounts for early payment to encourage timely payments from customers. For example, having discounts for early payments as well as making it easier for customers to make payments more quickly. For example, 1/10, Net 30 days, which means client gets 1% discounts of invoice if payment is made 10 days earlier than 30days? Kumor 2013 related debt management to account receivables and continued. Accounts receivable is money owed by customers to a business for a service provided or product sold to them. The timeline for businesses to receive their payments from the customer is very vital. The efficiency of account receivables for small businesses is be measured by practices businesses followed to reduce the timeline of receiving payments (Kumor, 2013). Higher ratios indicate debts from customers are being paid at a fast rate and prevent writing off bad debts which will improve the businesses cash flow to also pay for its financial obligations, for example, paying employees. Activities wise businesses are expected to consider practices for example: Considering shortening Payment Terms extended to customer. Businesses are not obligated to give their customers longer payment terms for example 30 day or more payment terms. The ability for businesses to offer shorter terms to customers and still retain their customers with payment received is essential for its financial performance and competitive advantage as well as receiving payment to improve its cash flow.

**Bad Debt Challenges**

When business owners are not able to collect debt of their debtors due to their inability to pay back, it becomes a bad debt. According to (Isaac, 2017), bad debt is often as a result of the debtor going out of business and going bankrupt. Isaac (2017) further emphasized a research by Bibby Financial Services international indicated an increase by 70 percent for the average levels of bad debt of SMEs within a year. Amuzu (2010) in his research concluded businesses in

Ghana have indicated increase in business going bankrupt leaving their creditors with bad debts and written off.

**Creditor's Payments/ Expenses Analysis Challenge**

Gaining better control over cash flow options with options for making payments when the business wants to. In a report by Bergthaler, Kang, & Liu (2015), many suppliers offer a 30, 60 and 90 payment terms without interest charges to their clients though it was identified most client did not take advantage of these payment options to stretch their payment. According to Bergthaler, Kang, & Liu (2015), creditor payment can be related to account payable which can be measured with numbers from the balance sheet and income statement of the financial statements. This ratio determines the rate at which businesses pay off their suppliers and measures their liquidity. Ideally, businesses are expected to pay their bills in less than 30 days since most suppliers do offer special discounts as well as save on interest payments in terms of credit obligations.

The account payable turnover ratio indicates to creditors the short-term liquidity and cash flow efficiency of the SME. A higher ratio indicates prompt payments are made to suppliers and creditors while a lower ratio might mean a business has cash flow problems or has been able to secure favorable payment terms with creditors which allows them to pay the debt later without any penalties.

. Expense ratio can be calculated as

Expense Ratio = (Operating Expense / Net Sales) x 100

**Interest charges**

In a report generated by Gaskell, (2019), the author indicated lack of interest charges by SMEs on overdue account of debtors does pose negative impact on cash flow of the business. Gaskell (2019) continued to highlight when debtors prolong payment of their debt, the business also takes longer to pay back their supplier as well since inventory sold are not paid for. This simply means account payable for the business becomes greater than receivable which negatively impacts the businesses which in turn does impact. To avoid delay in debtors repaying debt, SMEs have to implement charging of interest on late payment. When SMEs implement interest on late and overdue payments, debtors will be prompted to pay back on their account on time. Huang, When, & Li. (2014) revealed when business register running low on cash, it indicates cash gab which can be described as cash tied up in operating cycle for a short period of time. The Authors continued to say the cash gab for a business becomes more costly when it becomes longer.

## Data Collection

Data for the study was collected by means of interviews conducted through skype with participants, questionnaire and secondary data received from small and medium scale owners voluntarily. During the interview process, participants were asked a series of semi-structured and open-ended questions. During the interview process, the interviewer made notes and permission was asked as well as the explicit knowledge of the participants for the call skype call to be recorded with the aid of a recording application. Recording of the interview was important for a replay to the interviewer to be able transcribe their responses accurately and ensure responses obtained was not forgotten or misinterpreted. For accuracy, Interviewer did ask clarifying questions in regards to responses as well as an explanation of specific terms and concepts to respondents. For richer data pertinent to answering the research question, probing questions not included in the interview schedule may also be asked.

Secondary data, according to Schuster, Anderson, and Brodowsky (2014), are data collected and gathered by different individuals prior to studies. Secondary data are usually already assembled; therefore, access to respondents or subjects is not required to gather the necessary data. In the research study, secondary data mainly financial statement, which will be used to obtain cash flow ratios to measure cash flow performance. The financial statements for the study was given to the researcher voluntarily by business owners. The financial statements composed of income statement, cash flow statement and balance sheets which are very vital components for cash flow management of a business. For example, efficiency in liquidity management which can be calculated using current ratio which will be current ratios (CR) divided by current liabilities obtained from the balance sheet.

A survey was also developed with semi-structured questionnaire which composed of close and open-ended questions. Survey The survey will be administered to respondents across the selected SMEs. To answer the developed research questions, the survey will sub-divided into 4 sections. The first section gathered information about the profile of each respondent to determine the demographics of the respondents. The second section included question about the SMEs being surveyed such as the specific industry, specialized employees, number of years of their existence and knowledge about cash flow management. The third section will solicit responses to explain the current cash flow management practices of the respondent's SMEs. The final section focused on the respondent's opinion based on their knowledge concerning cash flow management challenges and the relationship between cash flow management and financial performance. Appendix A contains survey questions.

Respondents were asked to indicate which cash flow management practices they utilized in terms cash flow management. The latter was done asking respondents to rate statements in relations to their cash flow management on a 5 point Likert-scale which will have to be answered by choosing one of the following options for each question: 1 = 'strongly disagree, 2 = 'disagree', 3 = 'neither agree or disagree' , 4 = 'agree' and 5 = 'strongly agree'.

## Data Analysis

A regression model was developed to establish the relationship between dependable and independent variables. In reference to the conceptual framework established for the research study, the regression model below captured the relationship between financial performance and cash flow management metrics, Specialized Staff (SS),Cash Flow Forecasting(CFF) , Banking Relationship (BR) , Inventory Management (IM) , Debtor Management(DM) , Creditor's Payment(CP), Cash Flow Statements(CFS).

$$ROIt = \beta_0+\beta_1 IMt+\beta_2 CFFt+\beta_3 SSt+\beta_4 CMt+\beta_5 DMt+\beta_6 BRt+\beta_7 CM + \varepsilon t \quad (1)$$

Where;

$ROI_t$ = Return on Assets

CFF = Cash Flow Forecasting

SS = Specialized Staff

BR =Banking Relationship

CFS = Cash Flow Statement

CM = Creditor Management

IM= Inventory Management

DM = Debtor Management

$\beta 0$, $\beta 1$, $\beta n$=Coefficients

$\varepsilon t$ = error term

## Assumptions, Limitations and Delimitations

The first assumption of the study was cash flow is very vital to the financial performance and sustainability of SMEs which relates to how important it is for SMEs to evaluate and measure their cash flow constantly (Oral, 2016). Cash flow evaluation relates to how well SMEs manage their assets, shareholder equity, short-term obligations, liability, and revenue. Despite the importance of cash flow to SMEs, the study assumes SMEs in Ghana have cash flow management challenges leading to negative cash flow with these challenges having an impact on their financial performance leading failure (Titus, 2012). According to a study done by Small Business Administration of the USA 2016, 50% of SMEs fail within the first two years of their startup due to the lack of positive cash flow (SBA, 2016). Negative cash flow indicates a decrease in liquid assets of a business, while positive cash flow for a small business indicates an increase in liquid assets. The study assumes SMEs with positive cash flow have control overpayment, managing expenses relevant to their business, paying a dividend to shareholders and have funds readily available for future financial challenges or investment opportunities leading to higher sustainability rate (Wickramasinghe, 2017). It is assumed all SME is started with the intended purpose being sustained more than assumed 2 years after their startup. The study assumes there are financial statements available to be released voluntary as data to be analyzed and used for the study (Cohen & Lathan, 2017). The study also assumes secondary data from financial statements released by SME owners will be accurate and reliable to produce statistically sound results (Somonas, 2015).

**Limitations**

This study identified three limitations. The first limitation was inadequate published journals and articles on the best cash flow management practices for SME in Ghana for further research. Previous researchers have concentrated on finding out the causes of SMEs not being sustainable within the first two years of their startup with cash flow being the major factor. Despite these findings, researchers have not gone further to investigate the current cash flow management practices to recommend the best cash flow management practices to elevate the sustainability rate of SMEs in Ghana. The second limitation identified will be data constraints due to secondary data collection method, survey and interview over the phone. Since data will not be collected with the researcher being involved but secondary data collected from participant voluntarily and survey, the research will have to utilize the survey responses as answered by respondents and their financial statements which will include a balance sheet, cash flow, and income statements exactly as it is given after clarification and request for further explanation. Thirdly, the scope of this research will be limited to the Greater Accra Region of Ghana, so the results cannot be generalized for all SMEs in Ghana. Though the objectives of the study are to:

1. Collect descriptive evidence on cash flow management practices of SMEs in Accra, Ghana.
2. Determine which cash flow specific cash flow management practices have to be emphasized to improve financial performance of SMEs.

3. Contribute to the knowledge body regarding the cash flow management and financial performance of SMEs, SMEs around the country cannot utilize the recommendations from this research since it will be based on data collected from SMEs in the greater Accra region only.

**Delimitations**

The research identified two main delimitations. The first delimitation was choosing the right research method to answer the research question for the study, which will be qualitative method and type of study being a case study.  A qualitative method and case study method was suitable for this study because it seeks to answer questions about What, How and Why for an event understudy which for this study will be

- What is the relationship between current individual cash flow management practices utilized by SME in Accra and their financial performance?
- What is the combined effect of cash flow management practices on financial performance of SMEs in Accra, Ghana?
- What impact does the knowledge possessed on cash flow management have on financial performance of SMEs in Accra Ghana?

The second delimitation will be to possibly include only SMEs who will have been in existence for more than two years and also have result structure in place for recording their financial statements.

## Conclusion

Chapter three explained the research methodology which will be used for this study which included research designs, the definition of the study variable, and collection of data and analysis of the secondary data received. The study will be descriptive research with sample of 20 SMEs in Accra, Ghana. Descriptive statistics which will include graphs, frequency and tabulation will be used summarize information from the financial documents received. Correlation analysis will be used to determine the relationship between efficient cash flow management practices and profitability of SMEs in Accra, Ghana, and Regression analysis to explain the relationship. Results and finding of the relationship between cash flow management practices and SME profitability will be followed in the next chapter which will be chapter five Data Analysis and Findings.

# CHAPTER FOUR: FINDING

The purpose of this research was to utilize the Quantitative Descriptive and Qualitative Case Study method to investigate the impact of Cash Flow Management Practices of 20 Ghanaian SMEs 1). on their financial performance and 2). recommend best practices to improve their performance. In reviewing past literature, the study identified the failure and poor financial performance of SMEs due to inadequate cash flow. Poor cash flow management specifically, was cited as a significant reason why SMEs in Ghana and around the world failed. Therefore, the objective of this research was to examine the effect of current cash flow management practices of SMEs on their financial performance and making recommendations to improve practices when necessary. The Variables in this study assisted in measuring the theories, and included:

**Dependent Variables**

- Financial Management

**Independent Variables**

- Specialized Staffing
- Cash Flow Forecasting
- Banking Relationship
- Inventory Management
- Debtor Management
- Creditor's Payment
- Cash Flow Statements.

The purpose of improving the financial performance of these SMEs was to elevate the two-year failure from the startup of SMEs to at least ten years to be more sustainable. The study did seek to implement positive cash flow management practices utilized by successful small businesses in the western world and Accra. Among these practices were:

- **Forecasting:** Cash flow forecasting helps businesses to predict how much money they will have a month to month for the next year. Forecasting cash flow for the next 30, 60 and 90 days includes reviewing and updating business forecasts regularly which also includes sales forecasting. Having a forecast enables businesses to anticipate cash shortages. While taking advantage of excess cash to reinvest for growth and expansion of the business.
- **Accounts Payable and Receivable:** A business needs to identify its crucial assumption about cash flow each month before projecting cash flow. One fundamental assumption is account receivables, which outline how quickly payments are received from your customers. For example, if most customers pay within 30 days, a fundamental assumption could be: ninety percent of sales will be collected the month after the sale. The crucial second assumption Account payables which outline when payments to be made by the business are due. For example, if vendors require payment within two weeks of delivery, a fundamental assumption could be: Payables are due within 14 days of purchase.
- **Planning Proactively:** Earmarking savings for unforeseen expenses and maximizing the inflow of cash has been deemed critical for the cash flow of SMEs. SMEs need to have access to funds saved and ready for ongoing, recurring, and future expenses (e.g., expansion, purchases, taxes, seasonality)

The methodology for this study was based on a qualitative case study research design. Researchers have a variety of research designs available to approach a research study. Research design can be defined as the structures, outlines, and strategies followed by researchers to obtain answers to formulated research questions (Creswell, 2010). The strategy which was qualitative case study research design chosen did provide specific directions for procedures in the research design. Choosing the qualitative case study research design was mainly based on the research question, research problem, and the objective of the study.

## Results

The study was designed to answer the question of the impact of cash flow management practices on the financial performance of SMEs through addressing the following research questions:

**Dependent Variable: Financial Performance**
**Independent Variable: Cash Flow Management Practices**
**Research Question 1: What is the relationship between current individual cash flow management practices utilized by SME in Accra and their financial performance?**

**Table-2: A Descriptive Analysis of Cash Flow Forecasting (independent variable) on financial performance (dependent variable) of SMEs**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| CFF1 | 20 | 1.00 | 2.00 | 1.4500 | .51042 |
| CFF3 | 20 | 1.00 | 3.00 | 1.8500 | .48936 |
| CFF2 | 20 | 1.00 | 3.00 | 2.0000 | .72548 |
| CFF4 | 20 | 2.00 | 3.00 | 2.4500 | .51042 |
| Valid N (listwise) | 20 | | | | |

A descriptive analysis indicated budgeting knowledge coded as (CFF4) recorded the highest mean of 2.45 which indicates a highest impact of budgeting knowledge on financial performance of SMEs also indicated respondents agreed they had knowledge about budgeting, followed by managing cash outflow (CFF2) with 2.00 with its impact on financial performance and respondents agreeing to managing their cash outflow. Cash inflow (CFF3) recorded a mean of 1.85 while cash flow recording (CFF1) recorded 1.45. Finding from the analysis revealed cash inflow practices, cash outflow practices, and budgeting practices had scored above the average score.

**Table-3: Analysis of Cash Flow Forecasting (independent variable) on the financial performance of SMEs**

| Model | Unstandardized Coefficient | | Standardized | t | Sig |
|---|---|---|---|---|---|
| | β | Std Error | Beta | | |
| Constant | -1.219 | .621 | | -1.526 | .068 |
| CFF1 | .325 | .138 | .312 | 2.869 | .004 |
| CFF2 | .258 | .126 | .146 | 1.388 | .005 |
| CFF3 | .521 | .125 | .522 | 5.520 | .001 |
| CFF4 | .312 | .103 | .342 | 3.238 | .002 |

A regression analysis (Table-2) on different cash flow forecasting practices established cash flow recording (CFF1), Cash inflow (CFF3), budgeting knowledge coded as (CFF4), and managing cash outflow (CFF2) had a positive and significant effect on financial performance. Cff1 had $\beta = 0.325$ at a P-Value 0.004, CFF4 with $\beta = 0.312$ at P-Value 0.002, CFF3 with $\beta = 0.521$ at P-value of 0.001 and CFF2 with $\beta = 0.258$ at P-value of 0.005. These analyses imply more emphasis should be put these cash flow forecasting practices (cash flow recording (CFF1), managing cash outflow (CFF2), Cash inflow (CFF3) and budgeting knowledge (CFF4)) to improve the financial performance of SMEs since they showed positive and significant on the financial performance.

Results from these finding agree with a study by Valtteri (2016) which suggested cash flow forecasting is a vital tool as predictors of future cash flows needs a business which could be operating cash flow, financing cash flow or investing cash flow. Pitkanen, (2016) confirmed Cash flow forecasting is a process of identifying an estimate of a businesses' future financial position and helps planning proactively for ongoing, recurring and future expenses which can be could be direct or indirect (Glaum, 2018). Cash flow forecasting is deemed important for businesses for a number of reasons which includes identifying problems involved with potential shortfalls in several months ahead of the businesses' operating cycle.

**Table-4: A Descriptive Analysis of Debtor Management (independent variable) on financial performance (dependent variable) of SMEs**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| DM1 | 20 | 2.00 | 4.00 | 3.2000 | .69585 |
| DM3 | 20 | 1.00 | 2.00 | 1.6000 | .50262 |
| DM2 | 20 | 2.00 | 4.00 | 3.4500 | .68633 |
| Valid N (listwise) | 20 | | | | |

A descriptive analysis indicated interest charge practice coded as (DM2) recorded the highest mean of 3.45 which implies interest charge practice has highest impact on financial performance of SMEs which indicated respondent agreed they charged interest on late payments, followed by discount offering (DM1), while due account payments (DM3) recorded a mean of 1.60 with their impact on financial performance of SMEs respectively.  Finding from the analysis revealed interest charging practices, and due account payment practices had scored above the average score.

**Table-5: Analysis of Debtor Management (independent variable) on financial performance (dependent variable) of SMEs**

| Model | Unstandardized Coefficient | | Standardized | t | Sig |
|---|---|---|---|---|---|
| | β | Std Error | Beta | | |
| Constant | -321 | .609 | | -.475 | .468 |
| DM1 | .225 | .146 | .150 | 1.124 | .026 |
| DM2 | .572 | .105 | .402 | 3.354 | .001 |
| DM3 | .152 | .116 | .106 | 1.017 | .104 |

A regression analysis (Table-4) on different debt management practices established interest charge practice (DM2); discount offering (DM1) had a positive and significant effect on financial performance. Dm1 had β = 0.225 at a P-Value 0.026, dm2 with β = 0.572 at P-Value 0.001. These analyses imply more emphasis should be put on these cash flow forecasting practices (interest charge practice (DM2), discount offering (DM1)) to improve the financial performance of SMEs since they showed positive and significant on the financial performance. Due account payments (DM3) had a positive but insignificant impact on financial performance.

These results conform to findings Bush (2018) who found some SMEs offered multiple payment options and discounts for early payment to encourage timely payments from customers. For example, having discounts for early payments as well as making it easier for customers to make payments more quickly. For example, 1/10, Net 30 days, which means client gets 1% discounts of invoice if payment is made 10 days earlier than 30days? Kumor (2013) also related debt management to account receivables and continued to explain accounts receivable is money owed by customers to a business for a service provided or product sold to them making the timeline for businesses to receive their payments from the customer is very vital. The efficiency of account receivables for small businesses is be measured by practices businesses followed to reduce the timeline of receiving payments (Kumor, 2013).

**Table-6: A Descriptive Analysis of Inventory Management (independent variable) on financial performance (dependent variable) of SMEs.**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| IM1 | 20 | 1.00 | 2.00 | 1.6500 | .48936 |
| IM2 | 20 | 1.00 | 3.00 | 1.7500 | .55012 |
| IM3 | 20 | 1.00 | 3.00 | 1.4000 | .68056 |
| Valid N (listwise) | 20 | | | | |

A descriptive analysis indicated a lack of stock coded as (IM2) recorded the highest mean of 1.75 followed which implies IM2 has the highest impact on financial performance of SMEs, followed by stock-taking (IM1) with a mean of 1.65, while goods never sold (IM3) recorded a mean of 1.40. Finding from the analysis revealed interest charging practices and due account payment practices had scored above the average score.

**Table-7: Analysis of Inventory Management (independent variable) on the financial performance of SMEs**

| **Model** | **Unstandardized Coefficient** | | **Standardized** | | |
|---|---|---|---|---|---|
| | **β** | **Std Error** | **Beta** | **t** | **Sig** |
| Constant | -0.421 | .702 | | -357 | .386 |
| IM1 | .224 | .136 | .150 | 1.42 | .028 |
| IM2 | .471 | .102 | .403 | 3.472 | .003 |
| IM3 | .131 | .120 | .122 | 1.02 | .201 |

A regression analysis (Table-6) on different inventory management practices established a lack of stock (IM2), and stock-taking (IM1) had positive and significant effects on SME's financial performance. IM2 had β = 0.471 at a P-Value 0.03, IM1 with β = 00.224 at P-Value 0.028. These analyses imply more emphasis should be put on these inventory management practices (indicated lack of stock (IM2) and stock-taking (IM1).) to improve the financial performance of SMEs since they showed positive and significant on the financial performance. Goods never sold (IM3) had a positive but insignificant impact on the financial performance with β = 1.31 and value of 0.201.

Results from these findings concur with findings from Ester (2015) research who concluded Management of inventory for business is very important since it does assist in the demand and supply of good produced by the business to keep it running and improve financial performance. Arrelid and Backman (2012) in their research confirmed to improve financial performance of SMEs, their inventory has to be better manage to meet the demand of its customers.

**Table-8: A Descriptive Analysis of Creditor Management (independent variable) on financial performance (dependent variable) of SMEs.**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| CM1 | 20 | 2.00 | 4.00 | 3.4500 | .60481 |
| CM2 | 20 | 1.00 | 4.00 | 1.8000 | .69585 |
| CM3 | 20 | 1.00 | 3.00 | 1.6500 | .67082 |
| Valid N (listwise) | 20 | | | | |

A descriptive analysis indicated money availability for goods coded as (CM1) recorded the highest mean of 3.45 making it the highest creditor management practice which impact financial performance of SMEs, followed by interest charges (CM2), while early payment discounts

(CM3) recorded a mean of 1.65 respectively. Findings from the analysis revealed money availability for goods had scored above the average score.

**Table-9: Analysis of Creditor Management (independent variable) on financial performance (dependent variable) of SMEs**

| Model | Unstandardized Coefficient | | Standardized | t | Sig |
|---|---|---|---|---|---|
| | β | Std Error | Beta | | |
| Constant | -.351 | .692 | | -.341 | .386 |
| CM1 | .216 | .135 | .160 | 1.124 | .021 |
| CM2 | .431 | .103 | .402 | 3.325 | .000 |
| CM3 | .125 | .114 | .121 | 1.109 | .102 |

A regression analysis (Table-8) on different creditor management practices established money availability for goods (CM1), and interest charges (CM2) had a positive and significant effect on the financial performance of SMEs. CM2 had β = 0.216 at a P-Value 0.021, cm2 with β = 0.431 at P-Value 0.000. These analyses imply more emphasis should be put on these creditor management practices (money availability for goods (CM1) and interest charges (CM2) to improve financial performance since they have a positive and significant impact on the financial performance of SMEs. Early payment discounts (CM3) had a positive but insignificant impact on the financial performance with β = 0.125 and P-value of 0.102.

Findings from the impact of creditor management on financial performance agrees with findings from Bergthaler, Kang, & Liu (2015) report which emphasized SMEs are able to save on interest charges from suppliers who offer 30, 60 and 90 payment terms which enables them to gain better control over cash flow options with options for making payments when the business wants to. Bergthaler, Kang, & Liu (2015) continued to state in their report creditor payment can be related to account payable which can be measured with numbers from the balance sheet and income statement of the financial statements. This ratio determines the rate at which businesses pay off their suppliers and measures their liquidity. Liu (2016) confirmed ideally, businesses are expected to pay their bills in less than 30 days since most suppliers do offer special discounts as well as save on interest payments in terms of credit obligations.

**Table-10: A Descriptive Analysis of Banking Relationship (independent variable) on financial performance (dependent variable) of SMEs**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| BR1 | 20 | 1.00 | 2.00 | 1.3500 | .48936 |
| BR2 | 20 | 1.00 | 2.00 | 1.3000 | .47016 |
| BR3 | 20 | 1.00 | 2.00 | 1.3500 | .48936 |
| Valid N (listwise) | 20 | | | | |

A descriptive analysis indicated banking relationship ownership coded as (BR1) and benefit of banking relationship (BR3) recorded the highest and same mean of 1.35. The importance of banking relationship (BR2), recorded a mean of 1.30. Findings from the analysis revealed banking relationship ownership and benefit of banking relationship had scores above the average score.

**Table-11: Analysis of Banking Relationship (independent variable) on financial performance (dependent variable) of SMEs**

| Model | Unstandardized Coefficient | | Standardized | t | Sig |
|---|---|---|---|---|---|
| | β | Std Error | Beta | | |
| Constant | .001 | .615 | | .010 | .888 |
| BR1 | .035 | .130 | .021 | .126 | .654 |
| BR2 | .403 | .104 | .324 | 1.863 | .002 |
| BR3 | .165 | .132 | .101 | 1.46 | .014 |

A regression analysis (Table-9) on banking relationship management practices established the benefit of banking relationship (BR3), and the Importance of banking relationship (BR2) had a positive and significant effect on the financial performance of SMEs. Br2 had $\beta = 0.403$ at a P-Value 0.002 and br3 with $\beta = 0.165$ at P-Value 0.014. These analyses imply more emphasis should be put on these banking relationship management practices (benefit of banking relationship (BR3) and the Importance of banking relationship (BR2)) to improve financial performance since they have a positive and significant impact on the financial performance of SMEs. Banking relationship ownership (BR1) had a positive but insignificant impact on the financial performance with $\beta = 0.035$ and P-value of 0.888

**Table-12: A Descriptive Analysis of Financial Statements (independent variable) on financial performance (dependent variable) of SMEs**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| FS1 | 20 | 1.00 | 2.00 | 1.5500 | .51042 |
| FS2 | 20 | 1.00 | 3.00 | 1.7000 | .65695 |
| FS3 | 20 | 1.00 | 3.00 | 2.1000 | .71818 |
| Valid N (listwise) | 20 | | | | |

A descriptive analysis indicated records of cash flow statements coded as (FS3) recorded the highest mean of 2.10 which implies its highest impact on the financial, followed by the importance of financial statement (FS2) which recorded a mean of 1.5. , The importance of banking relationship (FS1), recorded a mean of 1.55. Findings from the analysis revealed records of cash flow statements had a score above the average score.

**Table-13: Analysis of Financial Statements (independent variable) on financial performance (dependent variable) of SMEs**

| Model | Unstandardized Coefficient | | Standardized | t | Sig |
|---|---|---|---|---|---|
| | β | Std Error | Beta | | |
| Constant | -1.213 | .432 | | -1.016 | .051 |
| FS1 | .312 | .121 | .203 | 1.523 | .002 |
| FS2 | .069 | .113 | .132 | 1.166 | .006 |
| FS3 | 4.22 | .102 | .422 | 3.638 | .001 |

A regression analysis (Table-12) on financial statement management practices established records of cash flow statements coded as (FS3), the importance of financial statement (FS2), and the Importance of banking relationship (FS1) had a positive and significant effect on the financial performance of SMEs. FS3 had β = 4.22 at a P-Value 0.001 and fs2 with β = 0.069 at P-Value 0.006 and fs1 with β = 0.312 with P-value 0.002. These analyses imply more emphasis should be put on these financial statement practices (cash flow statements (FS3), the importance of financial statement (FS2) and Importance of banking relationship (FS1)) to improve financial performance since they have a positive and significant impact on the financial performance of SMEs.

These findings agree with Patti (2014) who established the relationship between Cash flow statement and financial performance of SMEs emphasizing indication of positive or negative cash flow status of in his research. Patti (2014) also explained cash flow statement is vital to financial performance of SMEs as it shows the incomings and outgoings of a business's cash within a given time frame which can be divided in three categories namely Financing (Cash used for borrowing or lending), Operations ( Cash used during daily operations) and Investing ( Cash used to purchase equipment or other assets).

**Table-14: A Descriptive Analysis of Specialized Staff (independent variable) on financial performance (dependent variable) e of SMEs.**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| SS1 | 20 | 1.00 | 3.00 | 1.8500 | .74516 |
| SS2 | 20 | 2.00 | 4.00 | 3.3500 | .67082 |
| Valid N (listwise) | 20 | | | | |

A descriptive analysis indicated specialized staff monitoring cash flow coded as (SS1) recorded the highest mean of 3.35 which shows having specialized staff monitoring cash flow has the highest impact on the financial performance, followed by owners monitoring cash flow (SS2), which recorded a mean of 1.85.

**Table-15: Analysis of Specialized Staff (independent variable) on financial performance (dependent variable) of SMEs**

| Model | Unstandardized Coefficient | | Standardized | t | Sig |
|---|---|---|---|---|---|
| | β | Std Error | Beta | | |
| Constant | .001 | .531 | | .001 | .666 |
| SS1 | .321 | .104 | .218 | 1.631 | .002 |
| SS2 | .168 | .132 | .042 | .361 | .521 |

A regression analysis (Table-12) on Specialized Staff management practices established specialized staff monitoring cash flow (ss1) had a positive and significant effect on the financial performance of SMEs. SS1 had β = 0.321 at a P-Value 0.002. The analysis implies more emphasis should be put on specialized staff (SS1) to improve financial performance since it had a positive and significant impact on the financial performance of SMEs. Owners monitoring cash flow had a positive but insignificant impact on financial performance with β = 0.168 at a P-Value 0.521. Agreeing with Kroes & Manikas (2014) who found SMEs have problem with their cash flow due to lack of financial experience necessary to make financial decision for their business. They continued to elaborate this challenge could be related to lack of specialized employees for example accountants to make financial decisions for the SMEs.

**Research Question 2: What is the combined impact of cash flow management practices on financial performance of SMEs in Accra, Ghana?**

Tables 16 and 17 below show the relationship established between the dependent variable (Financial Management) and independent variables (Specialized Staffing, Cash Flow Forecasting, Banking Relationship, Inventory Management, Debtor Management, Creditor's Payment and Cash Flow Statements). Results from the analysis shows Cash Flow Forecasting, Debtor Management, Inventory Management, Creditor Management, Banking Relationship, Financial Statements and specialized Staff had positive and significant impact on financial performance of SMEs is Accra with $\beta$ =0.510 and P-value of 0.060, $\beta$ =0.195 and P-value of 0.000, $\beta$ = 0.325 and P-value of 0.003, $\beta$ = 0.215 with P-value of 0.007, $\beta$ = 0.192 with P-value of 0.004, $\beta$ =0.431 with P-value of 0.002 and $\beta$ =0.391 and P-value 0.005 respectively. These value and results confirm the combination of these cash flow management practices have a positive and significant effect on the financial performance of SMEs in Accra. These findings agree with the finding by Lorek, Kenneth & Willinger (2009) who found due to the importance of cash flow to business, there is need for SMEs to implement strategies which will positively impact the management of their cash flow for better financial performance. This also confirms Kroes & Manikas, (2014) finding out since effective cash flow management provides a benefit of SMEs identifying their cash performance, liquidity measure and prediction of their financial performance.

**Table-16: ANOVA for Combined Effects of Cash Flow Management Practices**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| | Regression | 39.592 | 2 | 11.878 | 17.095 | .000[b] |
| | Residual | 32.126 | 38 | .541 | | |
| | Total | 71.718 | 41 | | | |

From table 13, the regression model was significant, with a value of F-statistic as 17.095 at P-Value of $0.000 \leq 0.05$. There was an indication of cash flow management practices having a positive and significant impact on the financial performance of SME in Accra, Ghana.

**Table-17: Analysis of combined Effect of Cash Flow Management Practices**

| Model | Unstandardized Coefficient | | Standardized Coefficient | t | Sig |
|---|---|---|---|---|---|
| | β | Std. Error | Beta | | |
| (Constant) | -1.129 | .612 | | -1.251 | .060 |
| Cash Flow Forecasting | .510 | .100 | .472 | 4.815 | .000 |
| Debtor Management | .195 | .101 | .231 | 1.945 | .003 |
| Inventory Management | .325 | .121 | .315 | 1.276 | .007 |
| Creditor Management | .215 | .102 | .416 | 3.182 | .001 |
| Banking Relationship | .192 | .111 | .391 | 4.562 | .004 |
| Financial Statements | .431 | .132 | .250 | 2.986 | .002 |
| Specialized Staff | .391 | .143 | .375 | 3.912 | .005 |

**Research Question 3**: What impact does the knowledge possessed on cash flow management have on financial performance of SMEs in Accra Ghana?

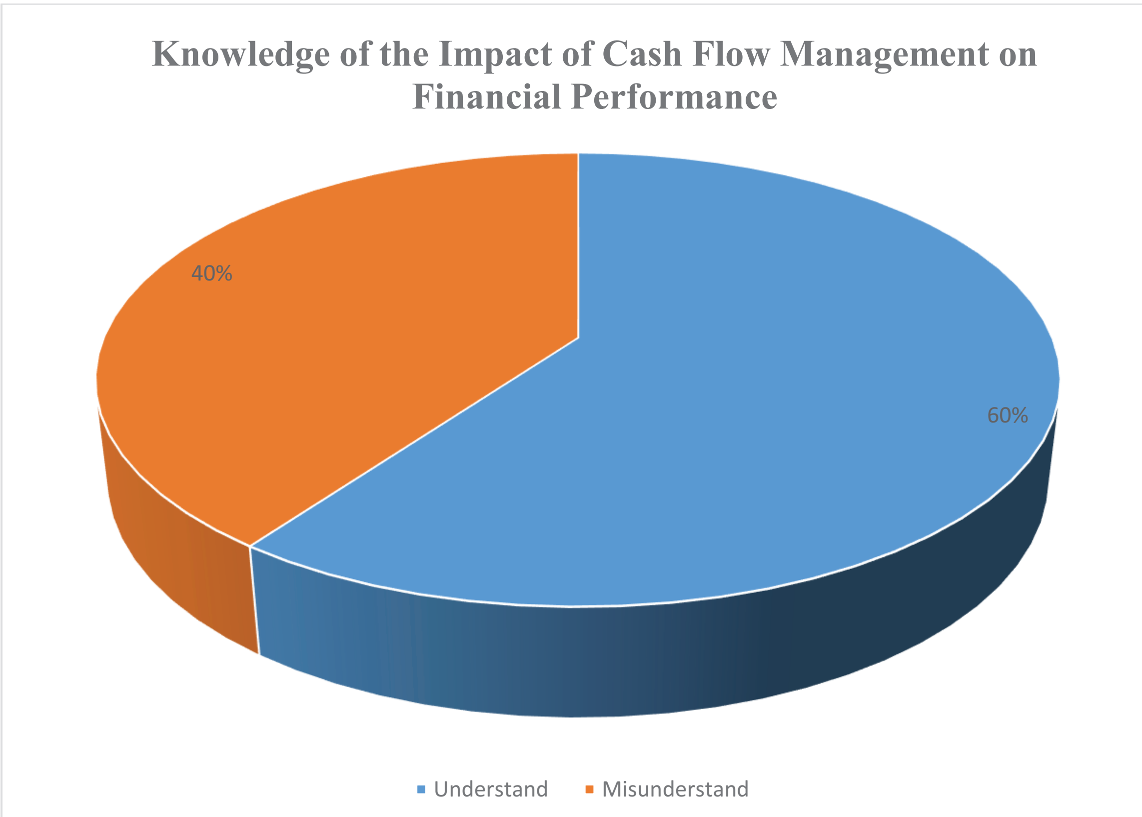



Figure 4: Knowledge of the Impact of Cash Flow on Financial Performance

The study sought to establish whether respondents had knowledge on the impact of cash flow management on financial performance of SME in Accra. From the analyses of the responds given by respondents with their knowledge about cash flow management and financial performance, sixty percent of the respondents did reveal they understood the impact cash flow had on financial performance. Forty percent revealed they didn’t understand the impact of cash flow on financial performance as indicated in figure 2. The study found forty percent of the respondent understood positive cash flow as being the same as making profit which to them improves financial performance of the SME. The respondents explained being able to sell their goods or paid by services they provided by receiving cash made their business profitable which on the contrary has been found not to be the case as emphasized by Ijoema (2016) in her research with positive cash flow not only be defined in terms of profits made by business. To confirm these finding by Ijoema (2016) some of the respondent did emphasize though they made profits from their sales as indicated in their financial statements, they did not have enough funds in terms of working capital available to maintain a balanced cash flow cycle and to address seasonal needs, business opportunities, or unexpected expenses. The respondents continued to say this lack of funds usually led to poor financial performance which they could not really understand since their financial statements recorded profits. The other sixty percent who demonstrated understanding the impact cash flow has on financial performance explained how consistently improving cash inflow through sales or services did increase both cash flow and profits for their business. They continued to say consistency in cash inflow in relation to accounts receivable enabled them to have funds readily available for their seasonality, expected and unexpected expenses and expansion. They also demonstrated their knowledge of knowing if the operating activities of the business generated profit but did not generate enough cash for its liquidity it indicated a negative cash flow. These findings support the findings by Trinh (2012) who identified having positive working capital through consistent cash inflow enables a business to have funds readily available for balanced cash flow cycle and capability to address needs which are seasonal, explore business opportunities and to pay for unexpected expenses. These finding further agree with Leadbetter & Cooke (2003) research who found having a positive cash flow aids vital aspect of working capital which includes accounts receivables, account payables and management of inventory which leads to cash enhancement of the business.

## CHAPTER FIVE: DISCUSSION AND FINDINGS

Small and Medium Enterprises have been identified globally to be a contributing factor to the economic growth of most countries around the world. Despite the importance of SMEs to the Ghana's economy, there has been a low survival rate of small and medium enterprises (SME) in Ghana within the first two years of their start up. Previous studies have indicated lack of positive cash flow as major causes of SME failures in Ghana. An extensive literature search conducted for this study failed to discover any literature that presented and discussed the combined effect of cash flow management practices on the financial performance of SMEs in Accra, Ghana. The absence of any findings suggested though in adequate cash flow has been identified as major factor which leads to less sustainability rate of these SME, cash flow management practices to improve cash flow has been under assessed.

The current Quantitative Descriptive and Qualitative Case Study method study was conducted to investigate the effect of cash flow management practices of specific Ghanaian SMEs on their financial performance. Specifically, the study was designed to uncover how Cash Flow Management Practices impact Financial Performance of an SME. The study was designed to answer the overarching question of the impact of cash flow management practices on the financial performance of SMEs through addressing the following research questions:

**Research Question One**: What is the relationship between current individual cash flow management practices utilized by SME in Accra and their financial performance?

**Research Question Two:** What is the combined effect of cash flow management practices on financial performance of SMEs in Accra, Ghana?

**Research Question Three:** What impact does the knowledge possessed on cash flow management have on financial performance of SMEs in Accra Ghana?

## Methodology

The methodology for this study was based on Quantitative Descriptive and Qualitative Case Study research design. Researchers have a variety of research designs available to approach a research study. Research design can be defined as the structures, outlines, and strategies followed by researchers to obtain answers to formulated research questions (Creswell, 2010). The strategy chosen provided specific directions for procedures in the research design. The research design chosen was mainly based on the research question, research problem, and the objective of the study.

## Findings

**Research Question One**: What is the relationship between current individual cash flow management practices utilized by SME in Accra and their financial performance?

**Analysis of Cash Flow Forecasting (independent variable) on the financial performance of SMEs**

A regression analysis on different cash flow forecasting practices established cash flow recording (CFF1), Cash inflow (CFF3), budgeting knowledge coded as (CFF4), and managing cash outflow (CFF2) had a positive and significant effect on financial performance. Cff1 had $\beta$ = 0.325 at a P-Value 0.004, CFF4 with $\beta$ = 0.312 at P-Value 0.002, CFF3 with $\beta$ = 0.521 at P-value of 0.001 and CFF2 with $\beta$ = 0.258 at P-value of 0.005. These analyses imply more emphasis should be put these cash flow forecasting practices (cash flow recording (CFF1), managing cash outflow (CFF2), Cash inflow (CFF3) and budgeting knowledge (CFF4)) to improve the financial performance of SMEs since they showed positive and significant on the financial performance.

Results from these finding agree with a study by Valtteri (2016) which suggested cash flow forecasting is a vital tool as predictors of future cash flows needs a business which could be operating cash flow, financing cash flow or investing cash flow. Pitkanen, (2016) confirmed Cash flow forecasting is a process of identifying an estimate of a businesses' future financial position and helps planning proactively for ongoing, recurring and future expenses which can be could be direct or indirect (Glaum, 2018). Cash flow forecasting is deemed important for businesses for a number of reasons which includes identifying problems involved with potential shortfalls in several months ahead of the businesses' operating cycle.

**Analysis of Debtor Management (independent variable) on financial performance (dependent variable) of SMEs**

A regression analysis on different debt management practices established interest charge practice (DM2); discount offering (DM1) had a positive and significant effect on financial performance. Dm1 had $\beta = 0.225$ at a P-Value 0.026, dm2 with $\beta = 0.572$ at P-Value 0.001. These analyses imply more emphasis should be put on these cash flow forecasting practices (interest charge practice (DM2), discount offering (DM1)) to improve the financial performance of SMEs since they showed positive and significant on the financial performance. Due account payments (DM3) had a positive but insignificant impact on financial performance.

These results conform to findings by Bush (2018) who found some SMEs offered multiple payment options and discounts for early payment to encourage timely payments from customers. For example, having discounts for early payments as well as making it easier for customers to make payments more quickly. For example, 1/10, Net 30 days, which means client gets 1% discounts of invoice if payment is made 10 days earlier than 30days? Kumor (2013) also related debt management to account receivables and continued to explain accounts receivable is money owed by customers to a business for a service provided or product sold to them making the timeline for businesses to receive their payments from the customer is very vital. The efficiency of account receivables for small businesses is be measured by practices businesses followed to reduce the timeline of receiving payments (Kumor, 2013).

**Analysis of Inventory Management (independent variable) on the financial performance of SMEs**

A regression analysis on different inventory management practices established a lack of stock (IM2), and stock-taking (IM1) had positive and significant effects on SME's financial performance. IM2 had $\beta = 0.471$ at a P-Value 0.03, IM1 with $\beta = 00.224$ at P-Value 0.028. These analyses imply more emphasis should be put on these inventory management practices (indicated lack of stock (IM2) and stock-taking (IM1).) to improve the financial performance of SMEs since they showed positive and significant on the financial performance. Goods never sold (IM3) had a positive but insignificant impact on the financial performance with $\beta = 1.31$ and value of 0.201.

Results from these findings concur with findings from Ester (2015) research who concluded Management of inventory for business is very important since it does assist in the demand and supply of good produced by the business to keep it running and improve financial performance. Arrelid and Backman (2012) in their research confirmed to improve financial performance of SMEs, their inventory have to be better manage to meet the demand of its customers.

**Analysis of Creditor Management (independent variable) on financial performance (dependent variable) of SMEs**

A regression analysis on different creditor management practices established money availability for goods (CM1), and interest charges (CM2) had a positive and significant effect on the financial performance of SMEs. CM2 had $\beta = 0.216$ at a P-Value 0.021, cm2 with $\beta = 0.431$ at P-Value 0.000. These analyses imply more emphasis should be put on these creditor management practices (money availability for goods (CM1) and interest charges (CM2) to improve financial performance since they have a positive and significant impact on the financial performance of SMEs. Early payment discounts (CM3) had a positive but insignificant impact on the financial performance with $\beta = 0.125$ and P-value of 0.102.

Findings from the impact of creditor management on financial performance agrees with findings from Bergthaler, Kang, & Liu (2015) report which emphasized SMEs are able to save on interest charges from suppliers who offer 30, 60 and 90 payment terms which enables them to gain better control over cash flow options with options for making payments when the business wants to. Bergthaler, Kang, & Liu (2015) continued to state in their report creditor payment can be related to account payable which can be measured with numbers from the balance sheet and income statement of the financial statements. This ratio determines the rate at which businesses pay off their suppliers and measures their liquidity. Liu (2016) confirmed ideally, businesses are expected to pay their bills in less than 30 days since most suppliers do offer special discounts as well as save on interest payments in terms of credit obligations.

**Analysis of Banking Relationship (independent variable) on financial performance (dependent variable) of SMEs**

A regression analysis on banking relationship management practices established the benefit of banking relationship (BR3), and the Importance of banking relationship (BR2) had a positive and significant effect on the financial performance of SMEs. Br2 had $\beta = 0.403$ at a P-Value 0.002 and br3 with $\beta = 0.165$ at P-Value 0.014. These analyses imply more emphasis should be put on these banking relationship management practices (benefit of banking relationship (BR3) and the Importance of banking relationship (BR2)) to improve financial performance since they have a positive and significant impact on the financial performance of SMEs. Banking relationship ownership (BR1) had a positive but insignificant impact on the financial performance with $\beta = 0.035$ and P-value of 0.888

**Analysis of Financial Statements (independent variable) on financial performance (dependent variable) of SMEs**

A regression analysis on financial statement management practices established records of cash flow statements coded as (FS3), the importance of financial statement (FS2), and the Importance of banking relationship (FS1) had a positive and significant effect on the financial performance of SMEs. FS3 had $\beta = 4.22$ at a P-Value 0.001 and fs2 with $\beta = 0.069$ at P-Value 0.006 and fs1 with $\beta = 0.312$ with P-value 0.002. These analyses imply more emphasis should be put on these financial statement practices (cash flow statements (FS3), the importance of financial statement (FS2) and Importance of banking relationship (FS1)) to improve financial performance since they have a positive and significant impact on the financial performance of SMEs.

These findings agree with Patti (2014) who established the relationship between Cash flow statement and financial performance of SMEs emphasizing indication of positive or negative cash flow status of in his research. Patti (2014) also explained cash flow statement is vital to financial performance of SMEs as it shows the incomings and outgoings of a business's cash within a given time frame which can be divided in three categories namely Financing (Cash used for borrowing or lending), Operations ( Cash used during daily operations) and Investing ( Cash used to purchase equipment or other assets).

**Analysis of Specialized Staff (independent variable) on financial performance (dependent variable) of SMEs**

A regression analysis on Specialized Staff management practices established specialized staff monitoring cash flow (ss1) had a positive and significant effect on the financial performance of SMEs. SS1 had $\beta = 0.321$ at a P-Value 0.002. The analysis implies more emphasis should be put on specialized staff (SS1) to improve financial performance since it had a positive and significant impact on the financial performance of SMEs. Owners monitoring cash flow had a positive but insignificant impact on financial performance with $\beta = 0.168$ at a P-Value 0.521. Agreeing with Kroes & Manikas (2014) who found SMEs have problem with their cash flow due to lack of financial experience necessary to make financial decision for their business. They continued to elaborate this challenge could be related to lack of specialized employees for example accountants to make financial decisions for the SMEs.

**Research Question 2:** What is the combined impact of cash flow management practices on financial performance of SMEs in Accra, Ghana?

Results from findings showed the relationship established between the dependent variable (Financial Management) and independent variables (Specialized Staffing, Cash Flow Forecasting, Banking Relationship, Inventory Management, Debtor Management, Creditor's Payment and Cash Flow Statements). Results from the analysis shows Cash Flow Forecasting, Debtor Management, Inventory Management, Creditor Management, Banking Relationship, Financial Statements and specialized Staff had positive and significant impact on financial performance of SMEs is Accra with β =0.510 and P-value of 0.060, β =0.195 and P-value of 0.000, β = 0.325 and P-value of 0.003, β = 0.215 with P-value of 0.007, β = 0.192 with P-value of 0.004, β =0.431 with P-value of 0.002 and β =0.391 and P-value 0.005 respectively. These value and results confirm the combination of these cash flow management practices have a positive and significant effect on the financial performance of SMEs in Accra. These findings agree with the finding by Lorek, Kenneth & Willinger (2009) who found due to the importance of cash flow to business, there is need for SMEs to implement strategies which will positively impact the management of their cash flow for better financial performance. This also confirms Kroes & Manikas, (2014) finding out since effective cash flow management provides a benefit of SMEs identifying their cash performance, liquidity measure and prediction of their financial performance.

The regression model was significant, with a value of F-statistic as 17.095 at P-Value of 0.000 ≤ 0.05. There is an indication of cash flow management practices having a positive and significant impact on the financial performance of SME in Accra, Ghana.

**Research Question 3**: What impact does the knowledge possessed on cash flow management have on financial performance of SMEs in Accra Ghana?

The study sought to establish whether respondents had knowledge on the impact of cash flow management on financial performance of SME in Accra. From the analyses of the responds given by respondents with their knowledge about cash flow management and financial performance, sixty percent of the respondents did reveal they understood the impact cash flow had on financial performance. Forty percent revealed they didn't understand the impact of cash flow on financial performance as indicated in figure 2. The study found forty percent of the respondent understood positive cash flow as being the same as making profit which to them improves financial performance of the SME. The respondents explained being able to sell their goods or paid by services they provided by receiving cash made their business profitable which on the contrary has been found not to be the case as emphasized by Ijoema (2016) in her research with positive cash flow not only be defined in terms of profits made by business. To confirm these finding by Ijoema (2016) some of the respondent did emphasize though they made profits from their sales as indicated in their financial statements, they did not have enough funds in terms of working capital available to maintain a balanced cash flow cycle and to address seasonal needs, business opportunities, or unexpected expenses. The respondents continued to say this lack of funds usually led to poor financial performance which they could not really understand since their financial statements recorded profits. The other sixty percent who demonstrated understanding the impact cash flow has on financial performance explained how consistently improving cash inflow through sales or services did increase both cash flow and profits for their business. They continued to say consistency in cash inflow in relation to accounts receivable enabled them to have funds readily available for their seasonality, expected and unexpected expenses and expansion. They also demonstrated their knowledge of knowing if the operating activities of the business generated profit but did not generate enough cash for its liquidity it indicated a negative cash flow. These findings support the findings by Trinh (2012) who identified having positive working capital through consistent cash inflow enables a business to have funds readily available for balanced cash flow cycle and capability to address needs which are seasonal, explore business opportunities and to pay for unexpected expenses. These finding further agree with Leadbetter & Cooke (2003) research who found having a positive cash flow aids vital aspect of working capital which includes accounts receivables, account payables and management of inventory which leads to cash enhancement of the business.

## Implications for Professional Practice

The purpose of this research was to utilize Quantitative Descriptive and Qualitative Case Study method to investigate the combined effect of cash flow management practices of 20 Ghanaian SMEs on their financial performance and recommend best cash flow management practices to be emphasized in order improve their performance. The importance of cash flow to the growth and financial performance of businesses around the globe has attracted various researchers to investigate cash flow management utilized by these businesses and its impact on their cash flow and have defined cash flow in various ways based on their research findings. In their qualitative case study on Cash flow ratios in predicting soundness of investment by testing the significance cash flow ratios in the evaluation a company's financial performance, Prowal and Tainis (2013), concluded with their finding and results emphasizing the relationship between cash flow management and the financial performance of a company.

The theory of cash flow research began in the year 1950s which was coined in by Mason (1961). Based on its objectives, the theory was divided into four phases including liquidity management, excess or surplus cash management, cash control management and management of cash movement. Management of cash flow for businesses has been seen to be critical over the years since if not managed properly may result in inadequate working capital which in turn will impact the financial performance of the business negatively (Hastak & Halpin, 2010). Management of cash flow involves the monitoring, analysis and adjustment of cash for businesses to avoid shortage case which can be caused by significant gab between the inflow and out flow of cash.

The results of this study suggest there is  a significant and positive effect of combine cash flow management  practices ( Specialized Staff (SS),Cash Flow Forecasting (CFF), Banking Relationship(BR), Inventory Management(IM) , Debtor Management(DM), Bad Debt Management (BDM) , Creditor's Payment(CP), Interest Payment(IM), Cash Flow Statements(CFS)) on the financial performance of SMEs in Accra, Ghana. Research conducted failed to identify any literature that emphasized combined cash flow management practices had an effect on the financial performance of SMEs in Accra, Ghana.

The most important implication of this research is that combined cash flow management practices were found to have a significant and positive effect on the financial performance of SMEs. Knowing the important of cash flow to the performance of SMEs, SME owner and business leaders should seek to emphasize on the cash flow management practices which include Specialized Staffing, Cash Flow Forecasting, Banking Relationship, Inventory Management, Debtor Management, Creditor's Payment and Cash Flow Statements. SMEs emphasizing on these cash flow management practice individually will aid the improvement of their cash flow in a combined capacity.

**Limitations**

This study did identify three limitations. The first limitation was inadequate published journals and articles on the best cash flow management practices for SME in Ghana for further research. Previous researchers have concentrated on finding out the causes of SMEs not being sustainable within the first two years of their startup with cash flow being the major factor. Despite these findings, researchers have not gone further to investigate the current cash flow management practices to recommend the best cash flow management practices to elevate the sustainability rate of SMEs in Ghana. The second limitation identified will be data constraints due to secondary data collection method, survey and interview over the phone. Since data will not be collected with the researcher being involved but secondary data collected from participant voluntarily and survey, the research will have to utilize the survey responses as answered by respondents and their financial statements which will include a balance sheet, cash flow, and income statements exactly as it is given after clarification and request for further explanation. Thirdly, the scope of this research will be limited to the Greater Accra Region of Ghana, so the results cannot be generalized for all SMEs in Ghana. Though the objectives of the study are to:

1. Collect descriptive evidence on cash flow management practices of SMEs in Accra, Ghana.

2. Determine which cash flow specific cash flow management practices utilized by SMEs have to be emphasized to improve financial performance of SMEs.

3. Contribute to the knowledge body regarding the cash flow management and financial performance of SMEs, SMEs around the country cannot utilize the recommendations from this research since it will be based on data collected from SMEs in the greater Accra region only.

**Delimitations**

The research identified two main delimitations. The first delimitation was choosing the right research method to answer the research question for the study, quantitative descriptive and qualitative Case study. A quantitative descriptive and qualitative case study method were suitable for this study because it sought to answer questions about What, How and Why for an event understudy which for this study was

- What is the relationship between current individual cash flow management practices utilized by SME in Accra and their financial performance?
- What is the combined effect of cash flow management practices on financial performance of SMEs in Accra, Ghana?
- What impact does the knowledge possessed on cash flow management have on financial performance of SMEs in Accra Ghana?

The second delimitation will be to possibly include only SMEs who will have been in existence for more than two years and also have result structure in place for recording their financial statements.

## Research Recommendations

The scarcity of research findings on the combined effect of cash flow management practices on SMEs in Ghana provides avenues to be researched in the future. Recommendation for future research from the preliminary research study include:

- Survey a larger sample of SMEs in the Greater Accra Area to analyze their relationship between their combined cash flow management practices and financial performance.
- Conduct general SME population study involving more than one Region in Ghana to investigate the correlation between cash flow management practices and financial performance.
- Focus on other cash flow management practices variables that impact the financial performance of SMEs.
- Conduct a large population survey to disprove or support the research findings that there is a significant and positive effect on cash flow management practice on financial performance.
- Adopt a comparative study of large organizations to establish if the same cash flow management practices which impact financial performance of SMEs also impact larger firms?

## Conclusions

Conclusions were arrived at the effect of independent variables( Specialized Staff (SS),Cash Flow Forecasting (CFF), Banking Relationship(BR), Inventory Management(IM) , Debtor Management(DM), Bad Debt Management (BDM) , Creditor's Payment(CP), Interest Payment(IM), Cash Flow Statements(CFS) on dependent variable (Financial performance) of SMEs in Accra, Ghana based on the findings of the study . These conclusions were based on the objectives of the study which were to 1. establish descriptive evidence on the effect of cash flow management practices on financial performance of SMEs in Accra, Ghana. 2. determine which cash flow specific cash flow management practices utilized by SMEs must be emphasized to improve financial performance of SMEs and 3. Contribute to the knowledge body regarding the cash flow management practices and financial performance of SMEs. The results from the study's findings did establish Cash flow management practices did significantly impact financial performance of SMEs. All dependent variables( Specialized Staff (SS),Cash Flow Forecasting (CFF), Banking Relationship(BR), Inventory Management(IM) , Debtor Management(DM), Bad Debt Management (BDM) , Creditor's Payment(CP), Interest Payment(IM), Cash Flow Statements(CFS) tested in the regression model were found to have a significant relationship between themselves and dependent variable( Financial performance). SMEs should therefore ensure there is great emphasis placed on cash flow management practices (Specialized Staffing, Cash Flow Forecasting, Banking Relationship, Inventory Management, Debtor Management, Creditor's Payment and Cash Flow Statements) to enhance their financial performance.

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## APPENDIX A

**California Southern University**

**School of Business**

**Doctor of Business Administration: International Business**

**03/09/2019**

**Dear Respondent,**

I, Gifty Malm a Doctor of Business Student at California Southern University request your valuable input for a research study on Cash Flow management practices and Financial performance of SME in Accra, Ghana. The purpose of this research is to investigate the impact of cash flow management practices of 20 Ghanaian SMEs on their financial performance and recommend cash flow management practices which have to be emphasized to improve their performance. The findings of this study will improve financial performance of SMEs to elevate the two-year failure rate from startup of SMEs to at least 10 years to be more sustainable.

Please assist by completing the survey attached which will not exceed 15 minutes for completion. Your participation of this study is voluntary, therefore, you may refuse to participate or withdraw from the study at any time with no negative consequence. Confidentiality and privacy of records identifying you as participants will be maintained by the researcher.

Thank you for participating

## APPENDIX B

Thank you for voluntarily completing this survey.

Please submit a scanned copy of your answered survey to email address: ginel26@yahoo.com

| Name of Participant( SME) | Number |
|---|---|
| Becky's Bakery | 001 |
| Newnet Express Limited | 002 |
| H.G. Kente Kiosk Ghana | 003 |
| Savanah Grande Ltd | 004 |
| Dolphin Services | 005 |
| Bonam Enterprise | 006 |
| Cudis Farms | 007 |
| Frequash Motors | 008 |
| Newnet Market | 009 |
| Jossy's Beauty Palour | 010 |
| Apple Pie Restaurant | 011 |
| Minash Clothing | 012 |
| Fixnet Company | 013 |
| Newnet Solutions | 014 |
| M & B Restaurant | 015 |
| Abi's Bridal Consult | 016 |
| Shelly' Natural Foods | 017 |
| Affordable Beauty Supplies | 018 |
| Nyaniba Foods | 019 |
| Elite Women's Beauty Studio | 020 |

(Please check **(X)** for your chosen option)

1. **Biographical Information based on the respondent**

   1.1 Highest qualification? High ____School______Diploma_______Degree None

   1.2 Position in the SME Owner___Manager

   1.3 Do you have cash flow management knowledge Yes____No

**2. Information based on the SME:**

2.1 Duration of SME operating: 0-1year____1-2______3-5_____6 and above

2.2 Who handle cash flow records? Manager____Owner_____None

For each chosen option please choose: **1** = 'strongly agree, **2** = 'agree'**, 3** = 'neutral'**, 4** = 'disagree' and **5** = 'strongly disagree'.

| **Financial Information** | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|---|
| Formal cash flow records are kept | | | | | |
| Cash flow is managed easily in the business | | | | | |
| Profitability has been recorded over the past 6 months | | | | | |

| **Cash Flow Forecasting** | Strongly agree | Agree | Neutral | Disagree | Strongly Disagree |
|---|---|---|---|---|---|
| Keeping records of cash flow is important to me | | | | | |
| I know how much money goes out of the business | | | | | |
| I know how much money comes into the business | | | | | |
| I have knowledge about cash budgeting | | | | | |
| I have time to manage my cash flow | | | | | |

| **Debtor Management** | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|---|
| I offer discount for debt settled in a timeframe. | | | | | |
| I charge interest on accounts overdue | | | | | |
| All past due accounts are paid | | | | | |
| I know the impact of bad debt on my cash flow | | | | | |

| **Inventory Management** | Strongly Agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|---|
| I take stock of my goods regularly | | | | | |
| I run out of stock for some goods sometimes | | | | | |
| I have products which don't get sold | | | | | |

| **Creditors Management** | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|---|
| I always have money readily available to pay for goods bought | | | | | |
| I do get interest charge on overdue account | | | | | |
| I get early payment discount when I pay my account within a period | | | | | |

| **Banking Relationship** | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|---|
| I have bank account for my business | | | | | |
| I know the important of having bank account | | | | | |
| I know having a bank account helps with monitoring cash flow | | | | | |

**Knowledge of cash flow and financial performance of SMEs**

| **Cash Flow and Financial Performance** | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|---|
| Poor cash flow leads to business failure | | | | | |
| Positive cash flow improves financial performance | | | | | |
| I have knowledge of cash flow and financial performance of SMEs | | | | | |

## APPENDIX C

### Consent Form

**What the study is about:** The purpose of this research is to investigate the current cash flow management practices of 20 Ghanaian SMEs with the impact on their financial performance.

**What I will ask you to do:** If you agree to be part of the study, you agree to voluntarily release your financial statements from 2016 to 2018 as secondary data.

**Risks and benefits:** I do not anticipate any risks to participants since there will not be direct contact between researcher and participants.

**Your data will be confidential.** The records of this study will be kept private. In any sort of report, I will not include any information that will make it possible to identify your SME. Research records will be kept in a locked file; only the researcher will have access to the records.

**Taking part is voluntary:** Releasing financial statements of your business is completely voluntary.

You will be given a copy of this form to keep for your records.

**Statement of Consent**: I have read the above information, and I consent to release financial statements of my SME for the years 2017 and 2018 to take part in the study.

Signature ___________________________________ Date ________________________

Name ____________________________________________________________

Name of SME ___________________________________________________

Name of person obtaining consent ______________________________ Date

_____________________.

**APPENDIX D**

**Glossary of terms and abbreviations**

| | |
|---|---|
| **ARR** | Account receivable ratio |
| **APTR** | Account payable ratio |
| **CCR** | Cash Conversion Ratio |
| **CF** | Cash flows |
| **CR** | Current ratio |
| **FDI** | Foreign direct investments |
| **FCFR** | Free cash flow ratio |
| **ICR** | Inventory Conversion ratio |
| **ITC** | International Trade Center |
| **OCFR** | Operating cash flow ratio |
| **QR** | Quick Ratio |
| **SPSS** | Statistical Package for Social Sciences |
| **SME** | Small and Medium Enterprises |
| **ROIC** | Return on invested capital |