



# **Empirical Study on the Influence of Working Capital Management on Performance of SMEs in a Developing Economy**

**Lazarus Lanquaye Lamptey<sup>1\*</sup>, Kennedy Frimpong<sup>2</sup>  
and Alfred Bassaw Morrison<sup>3</sup>**

<sup>1</sup>*Department of Accounting, University of Professional Studies, Accra, Ghana.*

<sup>2</sup>*Department of Accountancy, Sunyani Technical University, Ghana.*

<sup>3</sup>*Department of Accounting Studies, University of Education, Winneba, Kumasi Campus, Ghana.*

## **Authors' contributions**

*This work was carried out in collaboration between all authors. Author LLL wrote the protocol and wrote the first draft of the manuscript. Authors LLL and ABM performed the statistical analysis. Author KF did the literature review. All authors designed the study. The final manuscript was read and approved by all authors.*

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## **ABSTRACT**

The study examined the influence of working capital management on the performance of SMEs in Ghana. Both descriptive and correlational research design was adopted for the study. The annual financial statements from 2011 to 2015 of SMEs in the Greater Accra, Ashanti and Brong Ahafo Regions of Ghana were examined. The study adopted availability/convenience sampling technique to select four hundred (400) SMEs. The impact of working capital management on the performance of SMEs in Ghana was established through the use of Ordinary Least Square (OLS) regression technique. Average Return on Capital Employed (ROCE) was proxied as the measure of performance whilst average cash conversion period, average account receivable days, average inventory turnover days and average account payable days were used as proxies for working capital management. The study found that cash conversion period, account receivable days and inventory

\*Corresponding author: E-mail: [lazarus.lamptey@upsamail.edu.gh](mailto:lazarus.lamptey@upsamail.edu.gh);  
E-mail: [harunamaama@gmail.com](mailto:harunamaama@gmail.com);

turnover days were significantly and negatively related to performance. On the other hand, account payable days was ascertained to have a positive relation with performance. It is thus concluded that effective working capital management impacts on the performance of SMEs. The implication of these results is that by decreasing the cash conversion period, account receivable days and inventory turnover days, the SMEs can increase their profitability. The study recommends that the SMEs should consider a reduction in the cash conversion period, average account receivable days and average inventory turnover days. The SMEs must also consider negotiating for favourable terms of payments with their suppliers.

*Keywords: Working capital management; components of working capital; return on capital employed small and medium-scale enterprises; account receivable days; account payable days.*

## 1. INTRODUCTION

It is noted that albeit, working capital administration gets less consideration in literature than longer term financing choices. It however takes the major component of the time and attention of management. [1] found that most firms have a lot of resources invested in working capital. This means that the management of working capital would significantly affect the performance of firms. Consequently, [2] observed that most of the resources and assets of many firms are in the form of current assets. In this way [3] contended that firms must attempt to keep up an ideal level of working capital that maximizes their value. It is argued that large inventory on one hand and a generous credit arrangement on the other hand may lead to higher turnover of goods. Nonetheless, [1] contend that larger inventory decreases the danger of a stock-out and trade credit may actuate deals since it permits clients to assess item's quality before paying.

The issue of working capital administration is of unique significance to the small and medium-scale enterprises (SMEs) [4]. This is on the grounds that, as indicated by [5], SMEs accounts for more than 90% of private businesses and contribute to more than 50% of employment and GDP in most African countries. In Ghana, [2] reported that small and medium-scale enterprises provide about 85% of manufacturing employment, contribute to about 70% to Ghana's GDP and account for about 92% of businesses in Ghana. Notwithstanding, [6] additionally clarified that SMEs have constrained access to the long-term capital markets and thus ordinarily have a tendency to depend all the more vigorously on proprietor financing, trade credit and short-term bank loans to finance their needed investment in cash, accounts receivable and inventory. It is also provided that the failure rate among small

businesses is very high contrasted with that of large businesses.

In terms of viability of the enterprises, [5] observed that the efficient management of working capital is critical. This, the author noted can enhance performance, sustainability and competitiveness of these enterprises. Accordingly, [4] argue that the viability of a business depends largely on its ability to manage cash, receivables, payables and inventory effectively. As has been noted, lack of attention to the effective and efficient management of working capital may cause severe difficulties and losses because of adverse short-run developments even for the firm with favourable long-run prospects. Consequently, [3] contend that wrong evaluation of the working capital has dire ramifications of a company's working capital needs, and may subject creditors and investors to an unanticipated risk of default. The firm's financial managers however recognize that all working capital investments do not enjoy the same life expectancy, nor are they transformed into usable liquidity flows at the same speed [7].

The objective of working capital management is to ensure that the resources are managed effectively so as to increase the performance of firms. By reducing working capital investment (aggressive policies), it would positively affect the profitability of the company. This will happen if a firm reduces the proportion of its total assets in the form of current assets [8]. Alternatively, to earlier belief, investing highly in working capital (conservative policy) may also affect in high profitability. Most empirical evidence relating to working capital management and profitability support the aggressive working capital policies because it increases profitability of firms. In other words, an argument has been made that efforts and resources need to be put into working capital management because effective management of

working capital leads to an improved performance of a firm.

The anecdotal or absence of observational evidence on the working capital management and its effect on the performance of firms, in this case SMEs in Ghana is a major motivating force to study the subject in detail. Other studies [1], [2,5,8] have researched into the effectiveness of working capital management among SMEs in parts of Ghana or sectors of the economy. These studies used relatively small sample with reference to Ghana. In addition, the foundation of these studies lacks the empirical evidence and regression analysis to effectively establish the impact of working capital management on the performance of SMEs in Ghana. This has created a research gap on how working capital management impacts on SMEs' performance in Ghana. Consequently, this study attempts to fill this gap and estimate the relationship among working capital management and firm performance among SMEs in Ghana.

## **2. LITERATURE REVIEW**

### **2.1 Concept of Working Capital Management**

Usually, decision involving financial management is divided into management of assets (investment) and liabilities (source of financing) in the short term and long term. Generally, working capital management focuses on the management of current assets and current liabilities of a firm [1]. In the most widely recognized term, working capital can be expressed as sum of owned assets and current assets. In addition to the above, it discusses the nexus among current assets and liabilities which positively participate in firm's investment and financing strategies [6]. In other words, [8] explained that working capital is the amount of resources that a business has made available to meet the day to day cash requirements of its operations. Working capital is the difference between current assets and current liabilities. Current assets are the resources in cash or readily convertible into cash. Current assets include all those assets that in the normal course of business return in the form of cash within a short period of time, ordinarily within a year and such temporary investment as may readily be converted into cash upon need [9].

Also called business or operational capital, working capital exhibits great importance in order

to afford company to work with full capacity, continue production uninterrupted, decrease the risk of liquidity and not being in difficult situations financially in crisis [7]. In terms of management of working capital, dormant business capital leads to reduction of profitability and accordingly working capital deficit leads to the risk of unpaid debts [3]. According to [10], working capital is regarded as life giving force for any economic unit and its management is considered among the most important functions of corporate management. Every firm, profit oriented or not, irrespective of size and nature of business requires necessary amount of working capital. Similarly, [1] contend that working capital is the most crucial factor for maintaining liquidity, survival, solvency and profitability of business. [5] also posits that the management of working capital is important to the financial health of businesses of all types and sizes. According to the author, the amounts invested in working capital are often high in proportion to the total assets employed and so it is very vital that these amounts are used in an efficient and effective way [11,3] also noted that a firm can be very profitable, but if this is not translated into cash from operations within the same operating cycle, the firm would need to borrow to support its continued working capital needs.

According to [7], there are three type of policies related to working capital: conservative, aggressive and moderate policy. Conservative policy is a state where company makes maximum investment in current assets by sacrificing greater return. Secondly in aggressive or bold policy, maximum investment with higher returns is preferred [8]. On the other hand, the moderate policy maintains equilibrium between current assets and current liabilities. This implies that current assets ought to be financed with current liabilities while fixed assets should be financed by long-term liabilities [5]. The author asserts that when managers formulate policies related to working capital; they should make best mix of aggressive and conservative working capital policies. This is because, [12] contend that thoughtful management and control of working capital can guarantee the successful completion of business objectives. [13] made an observation that firms with improved and managed working capital are capable of formulating repeated progress to gain competitive advantage over competitors. These firms attempt to generate finance from inside source and also face minor trouble while generating finance from external source.

The discussion above shows that improving WCM is reasonably important for businesses and organisations to withstand the impacts of economic turbulence. On the other hand, efficient working capital management is also essential for companies during the booming economic periods for the reason that working capital management is related to all aspects of managing current assets and current liabilities. In sum, [11] opines that efficient working capital management involves planning and controlling current assets and liabilities in a manner that eliminates the risks of inability to meet due short term obligations on one hand and avoid excessive investment in these assets on the other hand.

## **2.2 Components of Working Capital Management**

Working capital management have been approached in numerous ways. Some studies (e.g. [1,5,10]) examined the impact of optimum inventory management while other authors studied the management of accounts receivables in an optimum way that leads to profit maximisation. According to [9], the way working capital is managed has a significant impact on profitability of firms. According to [3], current asset is the most important component of working capital. [7] Observed that a firm may be able to reduce the investment in fixed assets by renting or leasing plant and machinery, whereas, the same policy cannot be followed for the components of working capital. The high level of current assets may reduce the risk of liquidity associated with the opportunity cost of funds that may have been invested in long-term assets.

Similarly, [11] contends that firms which focus on cash management are larger, with fewer cash sales, more seasonality and possibly more cash flow problems. While smaller firms focus more on stock management and less profitable firms focus on credit management routines. [14] Also suggested that high growth firms follow a more reluctant credit policy towards their customers, while they tie up more capital in the form of inventory. Meanwhile accounts payables will increase due to better relations of suppliers with financial institutions which divert this advantage of financial cost to their clients. According to [1], another component of working capital is accounts payable. [5] argued that delaying payments to suppliers allows a firm to assess the quality of the products bought, and can be an inexpensive and flexible source of financing for a firm. On the other hand, late payment of

invoices can be very costly if the firm is offered a discount for early payment. [9] argue that trade creditors mitigate weak creditor protection and imperfect information better than formal lenders, and find that firms in countries with less developed financial markets use informal credit provided by their suppliers to finance growth.

Similarly, according to [15], most firms extensively use trade credit despite its apparent greater cost, and trade credit interest rates commonly exceed 18 percent. [8] also explained that credit management seeks to create, safeguard and realise a portfolio of high quality accounts receivable. Given the significant investment in accounts receivable by most large firms, credit management policy choices and practices could have important implications for corporate value. Successful management of resources will lead to corporate profitability [13]. Previous studies have established that the various components of working capital include accounts receivables, inventories, cash at hand, cash at bank, accounts payable and other short term obligations.

The optimum level of inventories will have a direct effect on profitability since it will release working capital resources which in turn will be invested in the business cycle, or will increase inventory levels in order to respond to higher product demand [16]. Similarly, both credit policy from suppliers and credit period granted to customers will have an impact on profitability [7]. Firms may also have an optimum level of working capital that maximizes their value. On the one hand, large inventory and a generous trade credit policy may lead to higher sales [12]. Larger inventory reduces the risk of a stock-out. Trade credit may stimulate sales because it allows customers to assess product quality before paying [17]. Because suppliers may have significant cost advantages over financial institutions in providing credit to their customers, it can also be an inexpensive source of credit for businesses [18]. The flip side of granting trade credit and keeping inventories is that money is locked up in working capital.

## **2.3 Impact of Working Capital Management on Performance**

It is incontestable that working capital management is necessary for all firms. However, it is the small firms that have to address this issue more seriously, given their susceptibility to the instability in their level of working capital.

Most empirical studies relating to working capital management and profitability support the fact that aggressive working capital policies enhance profitability. [19] examined the relationship between working capital management and profitability in USA. The authors sampled 88 companies listed on the New York Stock Exchange (NYSE). The study covered a period of three years, from 2005 to 2007. The authors used cash conversion cycle (CCC) as a proxy for working capital management and also used gross operating profit as a profitability measurement. By the employment of correlation and regression model, the authors observed a statistically significant and positive relationship between cash conversion cycle and profitability. Similarly, in Vietnam, [20] assessed the relationship that existed between working capital management and profitability. The authors also sample the annual reports of 130 listed firms from 2006 to 2008. Both correlation and multiple regression models were applied to establish the relationship between working capital management and corporate profitability. The study established a strong negative relationship between components of working capital management (such as account receivable days, inventory turnover days and cash conversion cycle) and gross operating profit, proxy for corporate profitability. The authors further found a strong positive relationship between account payable days and corporate profitability.

In addition, [11] conducted a study to determine the link between working capital management and performance of Belgian companies. The author found that working capital management was not associated with performance. Contrasting [11] findings for large Belgian firms, current studies like [7,11] show that shortening the cash conversion cycle improves an SME's profitability. According to (9), it cannot be ruled out that the negative relation between WCM and profitability is to some extent a consequence of profitability affecting WCM, and not vice versa. Indeed, the most plausible explanation for the negative relation between accounts payable and profitability is that less profitable firms wait longer to pay their bills. A negative relation between inventory and profitability can be caused by declining sales, leading to lower profits and more inventories [13]. [21] Investigated the relationship between working capital management and corporate profitability for a sample of 131 companies listed at Athens Stock Exchange for the period 2001 to 2004. The result from correlation and regression analysis indicated that

there was a statistical significant negative relationship between profitability, measured through gross operating profit, and working capital management, measured through cash conversion cycle. From those results, they suggested that the managers could create value for shareholders by handling correctly the cash conversion cycle and keeping each different component to an optimum level.

In the Pakistani context, [22] investigated the impact of working capital management on the profitability of 94 Pakistani firms listed on the Islamabad Stock Exchange (ISE) for the period between 1999 and 2004. The authors studied the impact of different variables of working capital management, including average collection period, inventory turnover in days, average payment period, and CCC on the net operating profitability of firms. Rahman concluded that there was a strong negative relationship between working capital ratios and profitability of firms. Furthermore, the authors stated that managers could create a positive value for the shareholders by reducing the CCC up to an optimal level. [23] investigated the influence of working capital management on corporate profitability for a sample of 30 firms listed at Nairobi stock exchange for the period 1993 to 2008. They applied pooled OLS and fixed effect regression model, their findings suggested statistically significant negative relationship between accounts collection period and profitability, and they also found statistically significant negative relationship of profitability measured through net operating profit with average payment periods and inventory conversion period.

[24] investigated the relationship between working capital management and profitability for a sample of 3 firms from petrochemical industry for a period of 5 years from 2004 to 2009. Average collection period, inventory turnover in days, average payment period, cash conversion cycle (CCC), and current ratio were used as a measure of working capital management, and there effect was studied on gross operating profitability, a measure of firms profitability. Result of Pearson correlation and linear regression showed a strong negative relationship between variables of working capital management and profitability.

In Ghana, the specific studies that attempted to establish the relationship between working capital management and the profitability of firms are that of [8,14]. [8] examined the impact of

working capital management on the profitability of petroleum retail firms in Ghana over a six year period (2008 to 2013). The authors used audited annual reports of five petroleum retail firms in Ghana. By adopting correlational and regression analysis techniques, authors found that the only component of working capital that influenced profitability was average payable days. On the other hand, other components of working capital such as cash conversion cycle, average inventory days and average receivable days had no impact on the profitability of retail petroleum firms in Kumasi. Similarly, [14] undertook a study to examine the relationship between working capital management practices and profitability of listed manufacturing firms in Ghana. The study collected secondary data (annual reports) from thirteen (13) listed manufacturing firms in Ghana from 2005 to 2009. The authors also found a significantly negative relationship between profitability and accounts receivable days. However, the findings further revealed that the cash conversion cycle, current assets ratio, size, and current assets turnover had a significantly positive relationship with profitability. The studies above provide evidence of how working capital management affect profitability of firms. However, the context and scope of their studies were different from the current study and their findings might be different. This provides a compelling reason for the conduct of this study.

### 3. RESEARCH METHODOLOGY

The study examines the impact of working capital management of SMEs in Ghana. Both descriptive and correlational research design was adopted for the study. Additionally, the study employed secondary data collection technique for the study. In particular, the study used the annual reports or financial statements from 2011 to 2015 financial years of the SMEs. The SMEs included in this study were those that: kept proper accounting records; had at least three years of financial statements during the study period and made annual sales or revenue of at least GHS 500,000. The study adopted convenience or availability sampling technique to select four hundred (400) SMEs from three regions in Ghana. The regions of the SMEs were carefully chosen to represent the Coastal, Central and Northern parts of Ghana. The distributions of the respondents from the three regions are: Greater Accra Region – 200 SMEs; Ashanti Region - 150 SMEs and Brong-Ahafo Region - 50 SMEs. Thus, a five years annual report of 400 was anticipated to result to 2000

firm year observations. However, some of the annual financial statements of the SMEs could not be obtained. As a result, the final sample data, considering missing data consisted a panel data of 1367 observations. The impact of working capital management on the performance of SMEs in Ghana was established through the use of Ordinary Least Square (OLS) regression technique.

#### 3.1 Regression Model

A panel econometric or regression technique called ordinary least square (OLS) was used to estimate the impact of working capital on the performance of SMEs in Ghana. On the basis of research objective, variables used in this study and their measurement were largely adopted from existing literature in order to make a meaningful comparison with prior empirical studies. Return on Capital Employed (ROCE) was used as the performance variable (dependent variable). However, the independent or explanatory variable of the model include: Average Cash Collection Period (ACCP); Average Account Collection Period (AACP); Average Account Payable Period (AAPP) and Average Inventory Turnover Period (AITP). In addition, other variables such as the size, age and industry or specific sectors of the SMEs were included so as to control specific factors that may have influence on performance of the SMEs. Consequently, the basic regression model is expressed as:

$$ROCE = \beta_0 + \beta_1 ACCP + \beta_2 AACP + \beta_3 AAPP + \beta_4 AITP + \beta_5 Age + \beta_6 Size + \beta_7 Ind. + \varepsilon$$

The variables and their explanations are provided in Table 1.

### 4. RESULTS AND DATA ANALYSIS

#### 4.1 Descriptive Statistics

The summary of the descriptive statistics of the SMEs used for the study is presented in Table 2. As can be observed from Table 2, the average performance for the dependent variable (return on capital employed) was GHS 14.2% and the minimum and maximum ROCE were -17.6% and 21.1% respectively. Additionally, the average measure of performance for the independent variables: Average Cash Conversion Period; Average Account Collection Period; Average Account Payable Period and the Average

Inventory Turnover Period were 42, 19, 25 and 39 days respectively. In addition, the average control variables such as the age and size of the firms were 14.6 years and GHS 119,480.00 respectively.

#### 4.2 Multicollinearity Test

Before the estimation of the model's coefficients, the sample data were tested for multicollinearity

through a Pearson correlation analysis. The results of the Pearson correlation analysis among the variables is presented in Table 3. From Table 3, it can be observed that majority of the cross-correlational coefficients for the independent variables are relatively small. This means that there is no course for concern about the problem of majority of the independent variables correlating among themselves.

**Table 1. Explanation of variables**

Variables	Variable explanation	A priori
ROCE	Return on Capital Employed (Proxy for Performance): Dependent Variable	
ACCP	Average Cash Conversion Period: Independent Variable	-
AACP	Average Account Collection Period: Independent Variable	-
AAPP	Average Account Payable Period: Independent Variable	+
AITP	Average Inventory Turnover Period: Independent Variable	-
Age	Age of firm (measured by years of business existence): Control Variable	+
Size	Natural Logarithm of total Assets: Control Variable	+
Ind.	Industry or specific sectors of the SMEs	+
$\beta_0$	Constant	
$\beta_1, \beta_2, \beta_3, \beta_4, \dots, \beta_7$	Coefficient of slope of the regression line	
$\varepsilon$	The Error Term	

**Table 2. Descriptive statistics**

Variables	Number of observations	Mean	Minimum	Maximum	Standard deviation
NP	1367	24,800	-1,260	79,454	52.365
ROCE	1367	14.2	-17.6	21.1	14.354
ACCC	1367	41.5	11.6	98.7	18.875
ACP	1367	18.1	8.9	51.2	13.581
APP	1367	24.8	9.4	63.8	16.626
AITP	1367	39.4	12.9	82.4	29.151
Age	1367	14.6	6	32	1.324
Size	1367	119,480	43,700	953,268	17.653

**Table 3. Correlation matrix**

Variables	ROCE	ACCC	ACP	APP	AITP	Age	Size	Ind.
ROCE	1							
ACCC	0.21*	1						
ACP	0.21*	0.01*	1					
APP	0.13*	0.14	0.34*	1				
AITP	0.39*	0.46*	0.47*	0.08*	1			
Age	0.06	0.02**	0.18**	0.03*	0.02	1		
Size	0.17**	0.01**	0.24*	0.01**	0.01	0.05*	1	
Ind.	0.35*	0.25**	0.58*	0.35*	0.46*	0.01	0.04	1

\* = Significant at 0.01 and \*\* = Significant at 0.05

**Table 4. Regression analysis**

Variables	Unstandardized coefficient		Standardised coefficient	t	p-value
	Beta	Std. error	Beta		
Constant	0.671	2.1318		1.65	0.035
ACCP	-0.351	0.0024	-0.414	2.36	0.043
AACP	-0.484	0.0091	-0.325	1.23	0.007
AAPP	0.125	0.0087	0.148	3.31	0.062
AITP	-0.114	0.0138	-0.254	1.94	0.041
Age	0.137	0.0011	0.109	2.58	0.056
Size	0.194	0.0139	0.883	6.64	0.051
Ind.	0.241	0.0214	0.326	185	0.016

$\alpha = 0.05$ ;  $R^2 = 0.771$ ; Adjusted  $R^2 = 0.715$ ;  $F$ -Statistics = 144.9; probability of  $F$ -statistic = 0.000

### 4.3 Regression Results

The empirical results on the impact of working capital management on the performance of SMEs presented in Table 4 above shows that the average cash conversion period is negatively related to performance (ROCE) and the level of impact is statistically significant. The coefficient of -0.351 indicates that a reduction in cash conversion period leads to an improved performance by 35.1 percentage. This means that when a firm takes shorter period to convert every transaction it undertook into cash, there will be more cash available. Since cash is observed as the pivot around which a business revolves, it can be reinvested to more profitable activities and this would result in an improved performance. This makes sense because if a business runs out of cash, it risks missing viable business opportunities. An acute cash shortage in a business can eventually result to the collapse of the business. This result is consistent with [8] who revealed that the ACCP had an impact on the performance of retail petroleum companies in Ghana. Similarly, [21,22] found a significantly negative relationship between profitability and cash conversion period.

Similarly, the average account collection period is negatively related to ROCE, indicating that a reduction in the account collection period would result to an increase in performance by 48.4 percentage. The result further indicates that the level of impact is statistically significant. Similarly, the average inventory turnover period is negatively related to ROCE. This result suggests that less inventory holding period, limited spoilages and reduced number of expired products leads to less storage cost, handling cost and pilferages and thus increase in profitability. In addition, the level of impact inventory turnover period had on performance was statistically significant. This means that a decrease in

inventory turnover period would result in an increased performance. This result confirms the findings of [20]. [20] Found a significantly negative relationships between profitability and account collection period and inventory turnover period.

The result presented in Table 4 further indicates that the average account payable period is positively related to performance. With this result, it means that an increase in the account payable period result to an increase in performance. The positive sign of the account payable period makes economic sense because, the longer a business delays in paying its suppliers, the higher the level of working capital it reserves and uses. This eventually would result to an increase in profitability. However, this result must be interpreted cautiously because when a firm makes it a habit in paying its suppliers, there are a number of opportunity or implicit costs incurred. For instance, such businesses risk losing their credit standings and also lose on the advantage of early settlement discounts. Even though, the average account payable period positively relates to performance, however, the level of impact is not statistically significance (p-value = 0.62, which is greater than alpha of 0.05).

With regards to the control variables, the size of the SMEs was ascertained to have a positive relation with performance. Similarly, age was also positively related to the performance of SMEs. However, the level of impact of age and size on the performance of the SMEs were not statistically significant. In addition, the industry or sectors the SMEs belonged to had a significant and positive relationship with performance. On the other hand, the  $R^2$  and adjusted  $R^2$  of the regression model were 0.771 and 0.715. This means that the independent variables accounts for 77.1 percentage point of the variations in the performance (ROCE) of the SMEs.



The discussions above demonstrate that working capital management impacts on the performance of SMEs. The results suggest that if management of SMEs spend much of their time to manage working capital effectively, their performance will also increase. This result is not far from the reality. This is because, SMEs operate on relative simple business model. Thus, the managers of the SMEs take decision fast to respond to changing economic trends. This means that if working capital is not managed well, these business would not be in a position to adjust easily when the need arises. This lack of flexibility can spell the doom for a business. In Ghana, majority of the SMEs are trading business, suggesting that they buy and sell at a profit. Thus, they are also on alert to hop to any business activity that promises good returns. Thus, cash in particular should be available to meet the needs of such business opportunities. These findings of this result is consistent with prior studies ([8,9,11,14,20-23].

## 5. CONCLUSION

The study empirically examined the influence of working capital management on the performance of SMEs in Ghana. Average Return on Capital Employed (ROCE) was proxied as the measure of performance whilst average cash conversion period, average account receivable days, average inventory turnover days and average account payable days were used as proxies for working capital management. Using ordinary least square regression model, the study found that cash conversion period, account receivable days and inventory turnover days were significantly and negatively related to performance. These results are associated with the number of days it takes to realise cash flows from input resources. On the other hand, account payable days was ascertained to have a positive relation with performance.

The meaning of these results is that by decreasing the cash conversion period, account receivable days and inventory turnover days, the SMEs can increase their profitability. However, there was no significant effect of increasing account payable days on the performance (profitability) of SMEs. Consequently, the implication of the results of this study is that the SMEs can increase their performance through proper management of their working capital. This study contributes to the body of knowledge by establishing the influence of working capital

management on the performance of SMEs in Ghana.

## 6. RECOMMENDATIONS

1. Based on the findings of the study, it is accordingly recommended that the SMEs must consider a reduction in the cash conversion period, average account receivable days and average inventory turnover days.
2. The SMEs must also consider negotiating for a favourable terms of payments with their suppliers. However, the SMEs must consider the lost opportunities or benefits that come with longer account payable period.
3. The managers, owners and accountants of the SMEs must acquire knowledge on how to effectively management their working capital. This will sharpen their skills on working capital management and eventually leads to improved performance.

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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