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Effect of working capital management practices on a firm's performance: *The case of El-Shadai financial services, Ada-Ghana*

[1] Onesimus Kwashie Dorkpah, [2] Reindolf Yao Nani Adzido Patil, [3] Emmanuel Kwame Ahiave, [4] Dr. Oliver Edward Dzogbede

[1] Tutor, Department of Accounting & Finance, Ada Technical Institute, Ada, Ghana
[2] Lecturer, Ho Polytechnic, Ghana, Faculty of Business & Management Studies, Department of Accountancy, Ghana
[3] Lecturer, Ho Polytechnic, Faculty of Applied Science & Technology, Department of Computer Science, Ghana
[4] Snr. Lecturer/Dean, E. P. University College, Ghana, Department of Accounting & Finance

Abstract

Working capital performance provides critical insight into the state of company's financial position. As an important indicator of financial fitness, the availability of the company's working capital is one of the first items a lender will examine on a statement of financial position. The working capital evokes a range of meanings, for the purpose of this study; it is the net liquid assets (current assets minus current liabilities) available to a firm to meet its liquidity needs. The purpose of this project was to assess the effect of working capital management practices on a firm`s performance: the case of El-Shadai Financial Services. Questionnaires were used to collect data from 45 respondents. It was generally found that working capital management practices are not very efficient in the Institution. This can open avenues for fraud and expose the institution to more risks in the future leading to low minimum capital threshold. The problem of poor working capital management resulted to cash flow crisis highlighted by an organization exceeding its agreed overdraft limit, failing to pay suppliers on time, and being unable to claim discounts for prompt payment. The defective credit policy and slack collection period which led to high incidence of bad debts came to light through examination of daily operation books. Statistical tables were used to analyse the data. Analyzing current situation gives direction to what kind of plans have to be put in place to free tied-up capital. The researchers drew the management`s attention to identifying the firm`s investment priorities particularly those that are crucial in sustaining businesses in the long run. The researchers created awareness to management that they should sacrifice to channel a chunk of their funds to finance and achieve these priorities that will enable them to generate extra cash or profits to plough back into other sectors of their industries. We recommended that management should constitute a Working Capital Management Committee that would be responsible for the formulating of policies that facilitate the effective management of working capital in the Organization. The committee must insist on the use of matching working capital policy.

Keywords: Accounts payable, accounts receivable, cash management, Ghana, inventory management, performance, working capital management

1. Introduction

It is imperative for every business unit to assess its Working Capital Management practices to unearth its performance. This can be done through assessment of an organization's performance while conducting day to day operations, by which balance can be maintained between liquidity and profitability. Maintaining liquidity of a firm is a crucial part of managing working capital so as to keep the daily based operations to make sure it runs and meets its commitment. It is a difficult task for managers in making sure that the business function runs in a well-organized and advantageous manner.

Liquidity and profitability are the two vital aspects of corporate business life (Panwala, 2009) [36]. Liquidity measures the ability of a company to honor all the maturing obligations. No firm can endure without liquidity. Profitability is the rate of return on company's investment. An unwarranted high investment in current assets would reduce this rate of return. Working Capital Management (WCM) becomes a basic and broad aspect of assessing the performance of a corporate entity. It is, therefore, essential to maintain an adequate degree of liquidity for the smooth running of the business operations. The liquidity should be neither excessive nor inadequate.

The importance of working capital in any industry needs no special emphasis. Working capital is considered to be a life-giving force to an economic entity. Management of working capital is one of the most important functions of corporate management. The efficient management of working capital is the most crucial factor in ensuring the survival, liquidity, solvency and profitability of a business organization. WCM is about the commercial and financial aspects of inventory, credit purchasing, marketing, royalty and investment policy. The higher profit margin may lower the level of working capital tied up in the production and selling of products. Giving limited attention to the management of cash flow, working capital option in this current global recession can weaken the financial system. This is especially true because working capital often accounts for more than one third of total capital employed. It has long been known that in the long run, effective management of cash flow is more important than profit.

Working Capital Management (WCM) refers to all management decisions and actions that ordinarily influence the size and effectiveness of the working capital (Kaur, 2010) [29].

It is a managerial accounting strategy which focuses on maintaining efficient levels of current assets and current liabilities to ensure that a firm has sufficient cash flow in order to meet its short-term obligations. WCM is an essential part of financial management and contributes significantly to a firm's wealth creation as it directly influences organizational profitability and liquidity (Raheman & Nasr, 2007; Naser *et al*, 2013). The most important issue in WCM is the maintaining of liquidity in the day-to-day operations of the firm. This is crucial so as to prevent creditors and suppliers whose claims are due in the short-term from exerting unwarranted pressure on management and thus ensures the smooth running of the firm. This suggests that, the main objective of working capital management is to ensure the maintenance of satisfactory level of working capital in a way that will prevent excessive or inadequate availability of working capital (Filbeck & Krueger, 2005) [19]. According to Padachi (2006) [35], management of working capital is important for the financial health of all businesses, irrespective of type and size. Decisions relating to working capital and short term financing are referred to as Working Capital Management (Shaun, 2005). Effective WCM can sharply reduce the firm's dependence on outside funding and can use the released cash for further investments or acquisitions. This will not only lead to more financial flexibility and value creation.

Implementing an effective Working Capital Management system is an excellent way for any company to improve their earnings and also justify its existence. The two main aspects of Working Capital Management are ratio analysis and management of individual components of working capital that ensure optimum performance per time.

The quantity of working capital required for a business varies with its nature. The needs and circumstances of organizations also differ from each other. The key performance ratios of a WCM system are the working capital ratio, inventory turnover and cash collection ratio. Ratio analysis will lead management to identify areas of focus such as inventory management, cash management, accounts receivable and payable management.

1.1 Problem Statement

The importance of working capital to the success of any business cannot be overemphasized. One of the serious problems faced by most financial managers is how to effectively and efficiently manage working capital to the benefit of their organizations. This is because working capital comprises a number of different items and its management is difficult since these are often linked. Hence, altering one item may impact adversely upon other areas of the business.

Poor Management of the working capital will result in cash flow problems highlighted by an organization exceeding its agreed overdraft limit, failing to pay suppliers on time, and being unable to claim discounts for prompt payment. In the long run, a business with insufficient working capital will fold up even if it remains profitable on paper.

Despite all interventions by managers and directors of firms, the challenges are not fully resolved to fine tune to the efficient capital management practices in firms. This remains the heartbeat of every company as well as a motivation to the researchers to find out the efficiency in Working Capital Management, as it relates to value creation, the case of El-Shadai Financial Services, Ada, and to recommend the way forward.

1.2 Purpose of the Study

The intention of the study is to assess the effect of Working capital management practices on a firm's performance using the El-Shadai Financial Services as a case. The following are the specific objectives of the study:

- To point out the El-Shadai financial services' efficiency in Working Capital Management.
- To identify the relationship among collection period of accounts receivable, accounts payable periods and cash conversion cycle of the firm.
- To give recommendations to management on the effective and efficient management of working capital practices on firms.

1.3 Significance of the Study

It is hoped that the result of this study concerning El-Shadai Financial Services Limited would contribute to the current knowledge on working capital management and serve as a point of reference for future research.

The study will serve as a guide for policy makers and administrators of the company's finances in the formulation of policies concerning efficient working capital management. The result will also help adopt prudent strategies in gaining access to credit facilities as well as professional expertise for efficient managerial works.

The findings and the recommendations of the study would help stakeholders in the similar business to formulate and implement policies that will help them to effectively manage their working capital efficiently.

2. Literature Review

2.1 Working Capital Management (WCM)

Working capital management involves financing and management of the Current Assets (CA) of the firm which changes in nature, possibly hourly. As a result, managerial decisions must be made with respect to how much inventory is to be carried and how to get the funds to pay for it (Block & Hirt 2000) [13, 14].

Efficient Working Capital Management involves planning and controlling Current Assets (CA) and Current Liabilities (CL) in such a manner that eliminates the risk of inability to meet due short-term obligations and avoids excessive investment in these assets (Eljelly, 2004) [18]. The major components of working capital include inventory, cash, accounts receivable and accounts payable.

2.2 Inventory Management

Inventory management is described as the planning, coordinating and controlling activities related to the flow of inventory through and out of an organization (Horngren, Datar & Foster 2013). Inventory may be classified as Supplies, Raw materials, Work-in-progress and finished goods" (Brigham & Houston, 2002). These classes of inventory are essential part of virtually all business operations, as with the case of account receivables, inventory levels depend heavily on sales, whereas receivables build up after sales have been made, inventory must be acquired ahead of sales. The necessity of forecasting sales before establishing target inventory levels makes inventory management a difficult task. Also, any error in the establishment of inventory levels quickly leads to low sales or excessive carrying cost.

2.3 Fisher's Separation Theorem

In order to avoid confusion, a short introduction to Fisher's separation theorem is in place. According to Hochstein (2001) [26], the idea of the Fisher separation theorem is that given perfect and complete financial, capital markets, the production decision (investment) is seen as governed solely by an objective market criterion (maximizing wealth) with no regard to the individual's subjective preferences that enter into the consumption decision. What this means, in theory, is that companies should avoid confusion between an investment and financing the investment. Fisher's separation theory has to do with working capital because a company should always separate how much they invest in working capital versus how they will finance working capital.

2.4 Cash Management

It is imperative to have sufficient cash in business. Cash is like the oxygen for a company to survive, company needs cash to deal with their daily operations. Padachi (2006) [35] points out that "just as circulation of blood is very necessary in the human body to maintain life, cash flow is necessary to maintain business". Akinwande (2009) [4] also said "Cash is life blood of a business, and a manager's key mission is to assist in keeping it to flow and to take the advantage of the cash flow in making profit". Hence, maintaining sufficient cash can decide the destiny of a business. Cash management is mainly about the decision of cash distribution, which is also the most important component of WCM. Although cash does not earn profit, there are three motives for a company to hold cash such as transaction, speculative and precautionary motives. Hence companies can enjoy several benefits by holding sufficient cash. Holding excessive cash does not make good business sense, since excessive cash can earn interest if they are used in the proper investment (Banjerjee, 2005) [10].

In related development, Banjerjee (2005) [10] states two constraints which decide how much cash a firm should maintain. Thus the "cash balance required compensating for the services that are rendered by banks to the firms" (p. 213) and the self-imposed balance, which is "determined by considering factors like the need for cash, the predictability of this need, the interest rate on marketable securities or the borrowing rate, and the fixed cost of effecting a transfer between marketable securities and cash or effecting a loan transaction".

Saddour (2006) studies the determinants of cash holding by using a sample of French firms. Results confirmed that cash holding enables firms to take profitable investment opportunities, which leads to the fact that cash holding level of growth firm is higher than the matured firms. They also found that the determinants of cash holding are different between growth firms and matured firms. With a similar study, cash holding level in firms from Canada is strongly affected by their market to book ratio, cash flow, net working capital leverage, and firm size (Gill & Shah, 2012) [22].

Bensoussan, Chutani & Sethi (2009) [12] further explained optimization problem of meeting demands for cash over time with cash deposit in bank or invested in stock. The value of cash holding and use of cash holding vary between good and bad-governed firms. Firm's future performance in poorly corporate governance will be reduced since cash can be dissipated very fast. On the opposite, in well-governed firms, firms' future operating performance will get a big improvement since the negative impact of cash holding can be cancelled out (Dittmar & Mahrt-Smith, 2006).

Poor WCM allows firms to face cash crisis. Thus deteriorating liquidity positions of the firms can be due to the following important signs such as an increase in the inventory conversion period; an increase in the average collection period; a decline in the firm`s daily or weekly cash inflows; increased costs of the firm is unable to pass on to its customers and a decline in the firm`s net working capital; or an increase in its debt ratio. These and similar occurrences indicate that firm has a liquidity problem (Pinches, 1990 cited in Institute of Chartered Accountants, Ghana, 2010) [1, 28]. However, managers can take the following steps to deal with the cash crisis or liquidity problem:

- Control and reduce investment in inventory.
- Re-examine and tighten up on credit and reduce the firm`s level of accounts receivable.
- Increase short-term or long-term, or issue equity.
- Control overheads and increase awareness of the need for effective asset management.
- Lay off employees.
- Reduce planned long-term capital expenditures.
- Reduce or eliminate cash dividends.

These liquidity problems can be dealt with depending on its sources, severity and expected length.

Cash management is described as minimizing the firm's risk of insolvency. It can be argued that firms are unable to meet their maturing liabilities on time. The reason for these firms lacking the necessary liquidity to make prompt payment for its current obligation is due to large cash crisis. Cash can make production halt should payment for raw materials purchased be continually late or omitted entirely resulting to low production leading to low profit margin. A sound working capital is designed to minimize the time between cash expenditure on material and collection of cash sales. There are various techniques of managing cash.One of the techniques is Cash Convention Cycle (CCC) Model which focuses on the length of time between where the company makes payment and when it receives cash inflows. Also equals the length of time between the firm's actual cash expenditure and its own cash receipts. More so, Receivables Collection Period is the average length of time required converting the firm's credit sales per day and Payable Deferral Period is the average length of time between the purchase of material, labour and the payment for cash for them. Based on the trade-off, credit sale controlling and managing account receivables become very important.

Kumar (2010) [31] explains debtor management as a process of making decision which relates to the investment in the business debtors. If debtors' management is in a poor condition, working capital ratio could be stressful which causes the needs of more capital input or increased debt (Turner, 2009) [44].

2.5 Accounts Receivable Management

Accounts receivable management also known as debtors' management is where a company giving their customers a specific credit term to pay for products or services. These credit terms, which are called trade credit, can help ease customer's financial frictions. Customers who buy products or service on trade credit are called sundry debtors for the company. A temporary relaxation of credit terms allows account receivables fluctuate correspondingly to the deviation in

demand, which illustrates the formation of a sale queen instead of customer or products queen. Due to the imperfect market, firms are required to maintain liquid reserve for the unexpected needs of cash. Offering trade credit to customers can be seen as offering loan to customers, which is also a part of liquid reserve. Therefore, firms can receive lending rate of return from this loaned liquid reserve. Extending trade credit gives suppliers an opportunity to earn a higher rate of return than the marginal return.

Hill, Kelly & Lockhart (2012) [25] reveal that trade receivable significantly and positively affect shareholders' wealth by studying all non-financial and non-utility. This result confirms the importance of a reasonable trade credit policy. However, the risks behind offering trade credit to customers are default and loss of interest. Thus customers may default, which might cause the company to run the risk of bad debts and company will lose the interest between time of sale and time of payment by the customer.

2.6 Accounts Payable Management

Suppliers' offer of trade credit creates accounts receivable and the opposite to that of the customers' acceptance of the trade credit also create accounts payable. Account payable, which occurs when firms purchase goods or services on credit, is the payment for vendors for products, services, inventories and supplies. One merit of having trade credit from sellers is that company can reduce some investment in Working Capital Management and save some resource.

Maximizing the account payable and stretching the payment term could be a competitive advantage for firms. However, the risk of maximizing account payables by having a longer credit period from the supplier is that firms may not get a discount from their vendors or bad quality products or service may get from suppliers, which can ruin the business relationship between suppliers and demanders. This affects firm's profitability (Ganesan, 2007) [20]. Account payable management such as account payable policy, implementation of the policy and monitoring result can help the managers ensure that efficiency of account payable management has reached (Sagner, 2011).

2.7 Working Capital Management (WCM) Policies

Working capital can be defined as Current Assets (CA) minus Current Liabilities (CL) (Preve & Sarria-Allende, 2010) [40]. CA includes firm's inventories, accounts receivable, and minimum level of liquidity. Firms usually finance their current assets by short-term operating liabilities. CA minus short-term operating liabilities is called financial needs for operations (Preve & Sarria-Allende, 2010) [40]. Working Capital Management is financing current assets and managing current assets and current liabilities of firm.

Decision of Working Capital Management can be affected by the company's Working Capital Management policy. WCM policy is a method of making investment in current assets and financing firms' assets by using short-term liabilities (Bandara, & Weerakoon-Banda, 2011) [9]. Basically, there are three types of working capital policies: matching working capital policy, aggressive working capital policy and conservative working capital policy. Firstly, matching working capital policy is by using current asset to match current liability perfectly. Thus companies keeping enough cash on hand to pay for their due liabilities. Secondly, aggressive working capital policy refers to companies usually having low account receivable and tries to pay their payable as late as possible. Thirdly, conservative working capital policy referred to companies making sure that they can pay their liability on time, and keep extra cash on hand just for the uncertainty (Kulkarni, 2011) [30]. Firms can minimize financial risk and improve its overall performance if firms have a well-thought Working Capital Management policy by understanding the role and drivers of Working Capital Management (Nazir & Afza, 2009) [2]. Thus, a well-designed Working Capital Management policy can be a competitive advantage for firms to create value for their shareholders.

2.8 Theoretical Linkages between Working capital management and the Profitability of a Firm

The management of Working capital is important to the financial health of business of all sizes. Working capital meets the short term financial requirements of a business enterprise. The working capital is a trading capital not retained in a particular form longer than a year in the business. The money invested changes form and substance during the normal course of business operations. The need for maintaining an adequate Working capital can hardly be questioned. Just as the circulation of blood is very important in the human body to maintain life, the flow of funds is very necessary to maintain business. If it becomes weak, the business can hardly prosper and survive. Working capital starvation is generally credited as the major cause if not a major cause of small business failure in many developed and developing countries (Rafuse, 1996) [38]. The success of a firm depends ultimately, on its ability to generate cash receipts in excess of disbursement. Given these peculiarities, efficient management of working capital and more recently good credit management practice is pivotal to the health and performance of the small firm sector. (Peel & Wilson, 1996) [37]. their study revealed that 60% of enterprises suffer from cash flow problems. From such a study there is the need for many industries to improve their return on capital employed (ROCE) by focusing on some critical areas such as cost containment, reducing investment in working capital and improving working capital efficiency.

Based on the information from the above findings, there is a negative relationship between profitability and the cash conversion cycle, inventory receivable days, accounts payable days and accounts receivable days which was used as a measure of Working Capital Management efficacy. Therefore it seems that operational profitability dictates how managers or owners will act in terms of managing the working capital of the firm. The negative relationship between accounts receivables and firms' profitability suggests that less profitable firms will pursue a decrease of their accounts receivables in an attempt to reduce their cash gap in the cash conversion cycle. Likewise, the negative relationship between number of days in inventory and corporate profitability suggests that in the case of a sudden drop in sales accompanied with a mismanagement of inventory lead to tying up excess capital at the expense of profitable operations. Therefore managers can create profits for their companies by handling correctly the cash conversion cycle and keeping each different component (accounts receivables, accounts payables, inventory) to an optimum level.

2.9 Empirical Literature Review

Previous researchers have approached the assessment of

working capital management (WCM) practices on firms' performance in the various perspectives. Among the approaches are the working capital management and corporate performance (Raheman *et al*., 2010; Padachi, 2006; Deloof, 2003) [39, 35, 15], Cash Conversion Cycle and Profitability, (Uyar, 2009) [45], determinant factors of working capital management (Nazir & Afza, 2008) and WCM Practices in UK SMEs and Financial management (Chittenden, Poutziouris, Michaela's, 1998). Their studies put forward that the best efficient working capital policies could lead to profit maximization and which in turn, lead to increase firm wealth (Lazaridis & Tryfonidis, 2006; Besley & Meyer, 1987) [32]. Similarly, the result from the assessment of WCM practices of El-shadai financial services performance is in line with the above results.

Also, Filbeck & Krueger (2005) [19] survey the importance of efficient working capital management by analyzing the working capital management policies of 32 non-financial industries in the US. According to their findings, significant differences exist among industries in working capital practices overtime. Besides, working capital practices change significantly within industries overtime. This is in line with the composition of source of investment funds of the El-Shadai financial services. Again, Bandara & Weerakoon (2011) [9] studied on "the impact of Working capital management practices on firm value". The study indicates that Working capital management has impact on firms' value by studying a sample of 74 companies listed in the Colombo stock exchange market. The result is similar to the result of Nazir & Afza (2009) [2]. They reveal a significant positive relationship between conservative Working Capital Management policy and firm value.

Al-Mwalla (2012) [6] further validates the positive relationship between conservative Working Capital Management policy, which uses more long term debt to finance firms' activities, and firms' profitability and its value; and the negative relationship between aggressive Working Capital Management policy, which uses more short term liabilities to finance firms' activities, and firms' profitability and value. This result is in line with the study of the El-Shadai financial services assessment of WCM.

In other study, Lyroudi & Lazaridis (2000) concluded that there is a significant positive relationship between the cash conversion cycle and the traditional liquidity measures of current and quick ratios. The cash conversion cycle also positively related to the return on assets and the net profit margin but had no linear relationship with the leverage ratios. On the contrary, the current and quick ratios had negative relationship with the debt to equity ratio, and a positive one with the times interest earned ratio. In contrast, there is no difference between the liquidity ratios of large and small firms. Shin & Soenen (1998) [43] studied the relationship between Working capital management and profitability of firms. Shin & Soenen used net trade cycle instead of cash conversion cycle to measure Working capital management. The difference is components of cash conversion cycle are expressed as a percentage of sales in net trade cycle. They found a strong negative relationship between net trade cycle and corporate profitability for a large sample of listed American firms for the periods between 1975 and 1994.

Deloof (2003) [15] used a sample of 1009 large Belgian non-financial firms for a period of 1992-1996. He used correlation and regression analysis and found a significant negative relation between gross operating income and the collection period of accounts receivable, average days in inventories and accounts payable of Belgian firms. These results suggest that managers can create value for shareholders by reducing collection period of accounts receivable and average days in inventories to a reasonable minimum. By contrast, El-Shadai financial services did not create such value through the use of effective management methods of cash inflows. This is due to shorter periods (7days) of accounts payables as against overdue collection periods (30days) of accounts receivable.

In addition, Jose *et al*. (2003) tested the corporate returns and cash conversion cycle of 2,718 firms for the period 1974-1993 by using multiple regression analysis. In their research, an aggressive liquidity management (lower cash conversion cycle) is associated with higher profitability for several industries, including natural resources, manufacturing, service, retail/wholesale, and professional services. Lazaridis & Tryfonidis (2006) [32] used a sample of 131 companies listed in the Athens stock for the period 2001-2004.They found a negative relationship between cash conversion cycle and gross operating profit. The findings revealed that managers can create profits for their companies by handling correctly the cash conversion cycle and keeping each component (accounts receivable, accounts payable and inventory) to an optimal level.

To extend Lazaridis & Tryfonidis' findings, Gill *et al*. (2010) used a sample of 88 American firms listed on New York stock exchange for a period of 3 years from 2005 to 2007. They found statistically significant relationship between cash conversion cycle and profitability, measured through gross operating profit as in Lazaridis & Tryfonidis' research.

Mohamad & Saad (2010) [34] used bloomberg's database of 172 listed companies randomly selected from Bursa Malaysia main board for five year period from 2003 to 2007. Applying correlations and multiple regression analysis, they found that current assets to total asset ratio shows positive significant relationship with Tobin q ratio analysis, ROA and ROI. It might be interest to note that the Tobin q ratio analysis is the ratio between a physical asset market value and its replacement value. Cash conversion cycle, current asset to current liabilities ratio and current liabilities to total assets ratio illustrate negative significant relations with Tobin q ratio analysis, ROA and ROI.

Şamiloğlu & Demirgüneş (2008) [41] researched the effects of Working capital management on firm's performance in Turkey. They found out that accounts receivables period, inventory period and leverage affect firm profitability negatively. Also growth in sales affects firm profitability positively. This result is in line with the Working capital management practices of El-Shadai financial services performance. Similar revelation is in the El-Shadai financial services that undertake formal credit investigation before granting credit to its customers. Uyar (2009) [45] researched the relationship between cash conversion cycle with firm size. Firm size measured by total assets and sales revenue, and profitability is measured by return on assets and return on equity. The result showed that retail/wholesale industry has shorter cash conversion cycle than manufacturing industries. Another important aspect of the study is that the textile industry has the longest cash conversion cycle. There is a significant negative correlation between the length of cash conversion cycle and the firm size. Hence, smaller firms have longer cash

conversion cycle. Also the study found the negative correlation between the length of cash conversion cycle and the profitability. All the above studies showed that there are mixed relationship between Working capital management and firm performance.

Raheman & Nasr (2007, as cited in Gamze, Ahmet & Emin, 2012) found a strong negative relationship between components of the working capital management and profitability of the firm. Furthermore, Afza & Nazir (2007, as cited in Gamze, *et al*., 2012) found a negative relationship between the profitability measure of firms and degree of aggressiveness of working capital investment and financing policies for 208 public limited companies listed at Karachi stock exchange for a period of 1998-2005. They measured Tobin q and profitability as a firm performance. Tobin q and profitability produced almost the same results. Nazir & Afza (2009) [2] further suggested that managers can create firm value by adopting a conservative approach in working capital management. A significant negative relationship between aggressive Working Capital Management and firm value proves that aggressive Working Capital Management policy may destroy firm's value. Moreover, the study explains that firms following much Working Capital Management policy can generate higher value than the firms with conversion Working Capital Management.

3. Materials and Methods

3.1 Profile of the Organization

The El-Shadai Financial Service is a financial co-operative society established on 3rd August, 2003 solely for providing a financial self-help facility for its members. El-Shadai financial services limited initially operated as a sole proprietor and later changed to Susu entity in the Ada-Foah Township. This Susu entity grew with additional branches to the main branch. The core businesses are Susu contribution and other product packages. The growth has expanded to a local financial institution which empowers its management personnel to make decisions towards serving contributors, members, shareholders and society. The locations of the Zones are Ada-foah, Big Ada, Kassseh, Akplabanya, Anyamam, Sogakope and Alavanyo.

The mission of El-Shadai Financial Service is to promote a purposeful living for members of good standing. It strives to achieve this by offering efficient savings and loans services that provide opportunities for members to realize their dreams and create hope for the future.

3.2 Products and Services

All products and services of the El-Shadai Financial Services are guided by operational policies. Copies of these policies are given to members on enrollment.

3.2.1 Savings

Savings are the regular deposits made by a member on a daily, weekly or monthly basis. The minimum daily savings requirement in the El-Shadai Financial Service is GH¢1.00. A member is required to save regularly, consistently and be committed. A member may save above the minimum requirement. Savings in the credit union is made according to the members' capacity and possibility to allow the money to stay in the account without rampant withdrawals. The total savings of a member shall not be more than 20% of the total assets of the society at any particular moment. The savings of a member is used as the first line of collateral for a loan. The savings can also be used to guarantee the loan of another member.

3.2.2 Loan

The loan service in the credit union is financed by the deposits mobilized from members. To qualify for a loan, a member shall save regularly for not less than 31days with the credit union. This period is used to sensitize, orient and educate the member to build the required trust and confidence to ensure a reliable member participation and patronage. It is also a period for the member to understand and build confidence and thrust in the credit union system to allay any fears of loss of funds based on misconceptions, misinformation or earlier bad experiences. At the El-Shadai Financial Service Limited, we grant loans twice in a month. Our loans are approved and paid within one week from the day of application.

3.3 Sampling and Instrumentation

The population consists of management and staff of the Institution. 45 respondents were chosen randomly for the study. Structured questionnaires were used to collect data which was analysed through statistical tables. The study and the data collection processes as well as the analysis were qualitative in nature.

4. Results and Discussions

4.1 Analysis and implications

In analyzing the data gathered, it is important to focus on how best the objectives of the study can be clearly brought to the fore. The researchers therefore employed descriptive cross sectional survey, the use of some statistical tools such as frequencies, percentages and tables which have the advantage of making the analysis more simple and understandable.

Table 1: Gender Distribution of Respondent

Sex	Frequency	Percentage
Male	26	57.7
Female	19	42.3
TOTAL	45	100

Source: Field Survey, May 2014

From the table above, out of the 45, 57.7% of the respondents were male and 42.3% were female. Though the study may be skewed towards males, the distribution is relatively good.

Table 2: Age Distribution of Respondent

Age Bracket	Frequency	Percentage
20 – 25	5	11.1111
26 – 30	20	44.4444
31 – 35	6	13.3333
36 – 40	11	24.4444
41 and above	3	6.66667
Total	45	100

Source: Field Survey, May 2014

From the table above, out of the 45 respondents, 5 representing 11.11% were between the ages of 20-25; 20 of the respondents representing 44.44% were between the ages of 26-30, 6 respondents representing 13.33% were between the ages of 31-35, 11 respondents representing 24.44% were between the ages of 36-40 and 3 of the respondents representing 6.67% were

above the ages of 41. This implies that the institution has a bright future having energetic young staff.

Table 3: Sources of Investment Funds

Sources	Frequency	Percentage
Self-financing	8	17.78
Borrowed from the bank	26	57.78
Borrowed from friends	9	20.00
Purchasing on credit	2	4.44
Total	45	100.00

Source: Field Survey, May 2014

From the table above, out of the 45 respondents, 17.78% of the respondents say the business initial finance is from Self-financing, 57.7% of the respondents say the business initial finance is borrowed from the bank, 20% of the respondents say the business initial finance is borrowed from friends and 4.44% of the respondents say the business initial finance is from Purchasing on credit. This distribution is not consistent with pecking-order theory that firms prefer internal finance to external finance. This shows that the institution has a good credit rating since management was able to mobilize more than 50% of capital from external sources (Banks).

Table 4: Management Methods of Cash Generated On a Daily Basis Methods

Methods	Frequency	Percentage
Sent to the bank	28.00	62.22
Keep in office cash till	5.00	11.11
Reinvest proceeds	12.00	26.67
Keep money in box at home	-	-
Total	45.00	100.00

Source: Field Survey, May 2014

From the table above, out of the 45 respondents, 62.22% of them say that Management methods of cash generated on a daily basis is sent to the bank, 11.11% of the respondents say that Management methods of cash generated on a daily basis is kept in office cash till and about 26.67% of the respondents said that Management methods of cash generated on a daily basis reinvest proceeds and no respondent said that Management methods of cash generated on a daily basis is kept in money box at home. This distribution is a good management practice exhibited in this institution, ensuring safety of cash.

Table 5: Do You Undertake Formal Credit Investigation Before Granting Credit To Your Customers?

Response	Frequency	Percentage
Yes	27	60
No	18	40
Total	45	100

Source: Field Survey, May 2014

From the table above, out of the 45 respondents, 60 % of the respondents undertake formal credit investigation before granting credit to their customers and 40% the respondents do not undertake formal credit investigation before granting credit to their customers. This implies that management adopts due diligence in accounts receivable management.

Table 6: Do you sometimes sell on credit?

Response	Frequency	Percentage
Yes	40	88.89
No	5	11.11
Total	45	100.00

Source: Field Survey, May 2014

From the table above, out of the 45 respondents, 88.89% of the respondents say that they sometimes sold on credit and 11.11% of the respondents do not sell on credit. As shown on table 5, management critically undertake credit assessment on Clients so as to minimise risks and defaults.

Table 7: Collection period of account receivables

Period	Frequency	Percentage
7 days	-	-
14 days	-	-
21 days	2	4.44
30 days	43	95.56
Total	45	100

Source: Field Survey, May 2014

From the table above, out of 45 respondents, 95.56% of the respondents say the collection period of the account receivable is 30 days, 4.44% represents 21 days and none for 7 days and 14 days respectively. This is a good management practice since debts can be collected within just one month period. However, table 8 below does not show that the overall efficiency is assured because the institution uses lesser days to pay creditors than to mobilize cash from debtors.

Table 8: Payment period of account payables

Period	Frequency	Percentage
7 days	35	77.78
14 days	6	13.33
21 days	1	2.22
30 days	3	6.67
Total	45	100

Source: Field Survey, May 2014

From the table above, out of the 45 respondents, 77.78% of the respondents say the payment period of the account payables is 7 days, 13.33% says 14 days, 2.22% says 21 days and 6.67% says 30 days.

4.2 Further Discussions

In explaining the nature of the problem and how it was resolved, questionnaires were issued to the management and the staff of the company. Data collected was analysed above. The following further discusses the problem and the way forward.

El-**S**hadai Financial Services limited, Ada faces financial and liquidity problems over a couple of years. The Working capital management practices of the firm were not encouraging especially in the period between June and August each year where more cash is demanded by clients for their seasonal business activities. This worrying situation came to light through a series of investigation conducted and dialogue with the management of the firm.

As shown on Table 7 above, account receivables collection

period is 30 days as attested by 95.56% of the respondents. Surprisingly, management was able to negotiate payment period shorter than the recovery period (7 days), as attested by 77.78% of the respondents (Table 8). The problem has affected the financial performance and profitability of the firm over the years. This problem is consistent with the literature that inefficient working capital management has negative correlation with financial performance.

In the midst of the challenges, management tried resolving the problem by instituting stringent credit facility access criteria to close the debt collection period; yet, the problem was not fully resolved; hence, the researchers helped to resolve it as discussed below.

4.3 Contribution of Researchers to the Institution

The researchers drew the management`s attention to identifying the firm`s investment priorities particularly those that are crucial in sustaining businesses in the long run. The researchers created awareness to the management that they should sacrifice to channel a chunk of their funds to finance and achieve these priorities that will enable them to generate extra cash or profits to plough back into other areas of their portfolio. When this strategy is adopted, they can generate sufficient funds to augment their cash target, buy treasury securities and finance other relevant investments that are instrumental to the success of their businesses. The researchers also advised the management to prepare budgets each time they intend to embark on major project. The budget preparation helps in the evaluation of the expected project to be undertaken. This will forestall unnecessary, unwanted, overestimated and underestimated expenses. This further helps to be abreast with the strengths and weaknesses of the organization`s cash position at a particular point in time.

In addition, we ask the management to formulate a credible credit policy for the enterprise. Management can achieve such creditable credit policy by constituting a Working Capital Management Committee that would be responsible for the formulating of policies that facilitate the effective management of working capital in the organization. In crafting such a policy, criteria should be set as to the conditions and terms for credit rating and granting. The policy should also take cognizance of the maximum number of days debtors can defray their debts. Where necessary, grace periods can be factored into this number of days. This will spare operators the headache of undertaking formal credit investigations about their customers and from chasing or policing them if they became bankrupt. When debtors are unable to service their debts, legal action could be taken against them; better still, collateral strategy should be adopted.

In brief, management must consider shortening collection period of accounts receivables and cash conversion cycle and extending payment periods of accounts payables so as to enhance profitability and general financial performance of the firm.

4.4 Lessons Learnt

The undertaken project has made us to learn that firms usually finance their current assets by short-term operating liabilities. Also, firms can minimize financial risk and improve their overall performance if they have a well-thought Working Capital Management policy by understanding the role and drivers of Working Capital Management (Nazir & Afza, 2009) [2]. Another lesson learnt was that inefficient WCM may not only reduce profitability of a firm's performance but also lead to financial crises and its associated effects.

Most of all, we understand that the El-Shadai Financial Services has longer collection period of accounts receivable and cash conversion cycle than payment periods of accounts payables of the firms thereby affecting its profitability. Again, we learnt that the issues on liquidity management were tackled through the following major findings of the study:

- The majority of respondents kept records of their financial transactions.
- Most investors could not send their accountants for professional training, seminars and workshops.
- Most investors personally generated funds to establish their enterprises.
- More of the operators borrowed money from the bank to augment their investment funds.
- Many entrepreneurs saved their business proceeds on a daily basis with a bank.
- Most respondents carried out expenses within their financial means.
- The investors did not invest their surplus cash, but rather saved it with a bank.
- Many of the Small and Medium Scale Enterprise (SMS) respondents did not have the financial muscle to invest in the buying of assets and other financial assets.

4.5 Challenges

Data for the research is limited in scope and methodology, and to the extent to which tax officials are willing or prepared to disclose vital confidential tax documents or information. The inadequacy of data in some specified instances limits the extent to which analysis could have been made. The firm does not keep all books of accounts and one would have to constantly deal with estimates and guesses to arrive at a conclusion in regard to purchases, sales, services and borrowings. Also the researchers were challenged with the relevant literature in undertaking the research work. The gathering of data was undertaken by using the limited duration for academic works and the same time for data gathering. Therefore the researchers' academics work had been conflicted with the research work.

5. Conclusion

Working capital is the heart of any business firm. The sufficiency of working capital assists in raising credit standing of a business because of better terms on goods purchased, lesser costs of manufacturing due to the acceptance of cash discounts, favorable rates of interest just to mention a few. Based on the findings of the study above, examination of all the policies and practices of the organization indicates a cautious attempt to efficiently manage working capital and increase cash flow. This is consistent with Gamez *et al*. (2012) [3] who concluded that collection period of account receivables and cash conversion cycle are negatively related with firm's profitability and this means by shortening collection period and cash conversion cycle firms can increase their profitability.

Another finding also confirms that inventory, revenue, inflation and debtors have an effect on Working capital management and the overall liquidity of the firm.

It was further found that inventory turnover in days has negative relationship with both indicators of firm performance

that is Return on Assets and Return on Equity which means that companies performance can be increased by reducing inventory in days. These findings are very consistent with the results of Raheman *et al*. (2010) [39] and Zubairi (2010). This research indicates that efficient inventory management systems avoid over and under stock-king of inventory resulting to better investment opportunities. Companies should engage in relationship with those suppliers who allow long credit time period and those customers who allow short payment period. There is still need in the future to identify the sector of intelligent relationship between Working capital management and firms' performance in Ghana.

6. Recommendations

Based on the findings of the study conducted, the following recommendations are made:

- The management of the El-Shadai Financial Service puts in place proper and efficient credit control systems thereby shortening collection period of accounts receivable and cash conversion cycle and increasing payment periods of accounts payables of the firm thereby increasing its profitability.
- El-Shadai Financial Service management must invest excess bank balances into risk free investments such as treasury bills rather than leaving such huge balances with the banks.
- El-Shadai Financial Service must be maintaining standardized minimum cash levels for all to avoid cashiers keeping huge sums of monies as imprest.
- El-Shadai Financial Service management must review its credit policies at least once a year in order to enable a flow of more cash into the system.
- It is suggested that management constitutes the WCM Committee which will involve all stakeholders who will be responsible for the formulating of policies that facilitate the effective management of working capital in the Organization.
- Selling of the business's obsolete assets is another way of adding up to working capital. In situations where the business has a variety of obsolete equipment due to technological advancement and surplus items in stock, management can conveniently dispose of such equipment to raise immediate cash for the purchase of new ones or use such fund to attend other pressing issues affecting the business.

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