Improving SME financial performance in Ghana: A randomised controlled trial

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- Small and medium-sized enterprises (SMEs) are significant contributors to economic growth and development; however, their performance is stifled by ineffective working capital management practices. Because of poor financial literacy among Ghanaian SME managers, many SMEs encounter cash flow problems due to slow customer payments, excessive/scant inventory, etc, which affect their financial performance.
- This study examines SMEs' working capital management practices and investigates the effect of best practice working capital management training on SME financial performance.
- The study employs an experimental design involving 288 SMEs in the Greater Accra Region of Ghana.
- The study finds that access to knowledge and skills on effective working capital management leads to greater firm performance, evidenced by improved sales, reduced cash conversion cycle, and higher profit. The increase in profit is estimated to be approximately 26%.

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Overview of the research

Small and medium-sized enterprises (SMEs) are critical to the Ghanaian economy. They contribute significantly to job creation, boost foreign exchange, and increase gross domestic product. Indeed, the government of Ghana introduced policies to support SME growth, including the Ghana Economic Transformation Project (GETP), aimed at supporting their recovery from the COVID-19 crisis. Over 80% of businesses in Ghana are SMEs, making them an important unit/target to be concerned about.

The COVID-19 pandemic had a major impact on small and medium-sized businesses in Ghana. It caused a decline in earnings, layoffs, a downturn in demand, organisational reorganisation, and a fear of exiting the market by SMEs. Businesses are striving for survival in the aftermath of COVID-19 and seeking to mitigate the devastating effects of the pandemic on their businesses. Business owners' financial decisions, especially concerning working capital management, play a key role in achieving this objective.

Unfortunately, previous studies on working capital management indicate that SMEs struggle to manage inventory levels effectively, resulting in excessive inventory levels that tie up working capital. Slow payments from customers also lead to cash flow problems. This also leads to delayed and late supplier payments, which damages supplier relationships. Furthermore, the issue of financial literacy among SMEs in Ghana is of grave concern. Financial illiteracy is even more pervasive and more severe in some demographic groups, such as women, older people, and those with less education. Some empirical studies posit that financial literacy among SME owners in Ghana is modest, and women are even less financially savvy. However, managers require a certain level of financial proficiency to set up efficient financial management systems and maximise the use of limited resources.

As such, this research addressed two main questions:

- What is the nature of working capital management practices among SMEs in the Greater Accra region of Ghana?
- What is the impact of working capital management training on the financial performance of SMEs in the Greater Accra region of Ghana?

Approach

To address these questions, we employed an experimental design to assess the impact of working capital management training on SMEs' financial performance. The experiment was complemented by qualitative data from a focus group discussion with a sample of SMEs to identify key issues around

SMEs' working capital management practices and the implications for their survival and sustainability. The randomised controlled trial approach randomly assigned SMEs to either the treatment or pure control arm, forming two groups. We collaborated with the Ghana National Chamber of Commerce and Industry (GNCCI), an association of businesses operating across various sectors in Ghana, to arrive at the sample of SMEs who participated in the study. The control group had 150 SMEs, and the treatment group had 138 SMEs, which were treated after the baseline data collection as follows:

- Treatment Group – Received a 2-day on-site training on effective working capital management practices, post-training follow-up consultations and access to the consultant through WhatsApp group communications
- Control Group – Did not receive training on effective working capital management practices

The objective of the training was to enhance the knowledge and skills of the treatment group's effective working capital management practices, which entailed effective inventory, receivables, payables, and cash management practices. This included lectures as well as case studies. The objective of the case study was to make the discussion hands-on and practical and provide opportunities to solve real business problems about working capital management. The aim was to enhance their ability and prowess in making key decisions that boost sales, reduce costs, and enhance liquidity and profitability. Following the training, the research team established support systems through field visits and WhatsApp consultations. A WhatsApp group was created for the treatment group and training facilitator to enhance further dialogue and consultations on the subject matter. The field visits were aimed at assessing how the knowledge and skills gained were being incorporated into the business operation of the treatment group.

Key research findings

The survey findings reveal:

- There was a significant improvement in the use of technology for bookkeeping, marketing, and inventory management among SMEs in the treatment group when compared to the control group.
- The mean literacy score of the intervention group was significantly higher than that of the control group post-intervention, implying that the intervention successfully improved the working capital literacy of SMEs in the treatment group.

- The treatment group's mean nature of working capital management score was significantly higher than the control group's. Hence, the training had a positive effect on the nature of working capital management practices.

- Access to knowledge and skills on effective working capital management led to greater firm performance, evidenced by improved sales, reduced cash conversion cycle, and higher profit for the treatment compared to the control group. The increase in profit is estimated to be approximately 26%.

Overall, the study presents evidence that capacity building programs equip businesses with the tools and knowledge they need to grow, compete effectively, and contribute to a strong economy.

Policy recommendations

This research highlights the significant role of working capital management training on the performance of SMEs in Ghana. Based on the survey findings, the following policy recommendations are made to improve SME sustainability, efficiency, and resilience and contribute to broader economic development goals:

- **Strengthen technical assistance for SMEs through strategic partnerships and capacity building:** Government should forge deeper collaborations with organisations such as the GNCCI, private sector stakeholders, and international development bodies. These partnerships can facilitate sector-specific WCM training and co-develop digital tools to improve SMEs' financial efficiency. Business Resource Centres (BRCs) under the Ghana Enterprises Agency should be empowered as one-stop shops at the district level to deliver a standardised WCM curriculum. By collaborating with initiatives like the National Entrepreneurship and Innovation Programme (NEIP), these BRCs can integrate practical WCM modules that improve cash flow, inventory management, and supply relationships. Encouraging Public-Private Partnerships (PPPs) will facilitate access to technology-driven solutions, such as digital bookkeeping and inventory management systems. Additionally, engaging Impact Investing Ghana (IIGh) and other impact investors can provide catalytic funding for technical assistance programmes, de-risking SME investments and scaling efforts across various sectors.

- **Promote financial literacy and management skills development:** The government's National Financial Literacy Campaign, launched in 2023, should be leveraged to target key demographics, particularly women and rural entrepreneurs. A Training of Trainers initiative utilising BRCs for regional outreach, supported by universities and research institutions, can build local expertise in financial management and business mentorship. Scaling up the Development Bank Ghana's financial literacy programme, with a focus on gender-responsive training, will help bridge financial literacy gaps. IIGh and impact investors can offer blended finance solutions to support these initiatives, combining grants, concessional loans, and investment capital specifically for working capital education.
- **Enhance business support through comprehensive financial and advisory services:** Government should establish an SME Resilience Fund, leveraging the COVID-19 levy to provide financial support and advisory services tailored to SMEs. This fund would promote the adoption of improved financial management practices and digital tools, supported by tax incentives for capacity-building investments. To ensure SMEs access comprehensive financial and advisory assistance, the Ministry of Trade and Industry (MoTI) and the Ghana Enterprises Agency (GEA) should facilitate collaboration between the Development Bank Ghana, commercial banks, and development partners. IIGh can also play a key role by unlocking patient capital to drive sustainable practices. Aligning initiatives like the Youth Employment Agency and the Business Regulatory Reforms Programme (BRRP) with targeted WCM training and business formalisation support will further enhance overall SME capacity. Finally, promoting the Digital Ghana Agenda will enable SMEs to leverage technology for formalisation, growth, and market access.

Challenges and strategies for implementing SME support policies

Implementing the proposed recommendations on WCM training, financial literacy, and business support for SMEs in Ghana may face challenges. Politically, bureaucratic delays and lack of policy coherence may hinder progress, while changing political leadership could affect the continuity of initiatives. Economically, government funding constraints and high borrowing costs for SMEs could limit the effectiveness of financial literacy and technical assistance programmes. Additionally, technological gaps and low digital literacy could obstruct SME adoption of digital financial tools. On the environmental and social front, gender and rural disparities remain significant barriers, particularly for women and rural entrepreneurs. SMEs may also resist formalisation due to perceived compliance costs. Cybersecurity threats and digital inclusion challenges may impact SMEs' ability to implement digital solutions successfully.

Adopting a collaborative approach to engaging the government, private sector, and development partners would be critical in overcoming the identified challenges. A comprehensive strategy that includes political commitment, adequate funding, capacity building, digital infrastructure development, and tailored support for SMEs will be essential for promoting the sustainability and resilience of SMEs in Ghana.