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DEBT MANAGEMENT AND THE PERFORMANCE OF SMALL SCALE ENTERPRISES IN THE KUMASI METROPOLIS OF GHANA



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ABSTRACT

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This study investigated how debt management impacts the performance of small scale enterprises in the Kumasi Metropolis of Ghana. In total, 120 small scale enterprises were interviewed. The study showed that most small scale businesses lacked in-depth knowledge on the issue of debt management. The study further revealed that the major cause of debts among small scale businesses were lack of advice on the business type and finances, lack of knowledge on the type of business and poor methods of keeping financial records. The study therefore recommends that Small scale businesses must hire financial experts to help them manage their businesses through prudent record keeping. Moreover, it argues that small scale businesses should work within their budgets in order to avoid higher expenditure and subsequent incurring of debts which could be detrimental to the running of their business. It posits that financial institutions should strive to give expert advice on business management to their clients.

1. INTRODUCTION

The role of small scale enterprises in developing countries as engines of growth has long been recognised. It is estimated that small scale enterprises employ 22 percent of the adult population in developing countries (Dalberg Global Development Advisors, 2011). Findings from the Ghana Statistical Service (GSS, 2012) estimate that small scale enterprises makes up to seventy percent (70%) of all industrial establishments which contribute about seventy percent (70%) of Gross Domestic Product (GDP) and account for about ninety-two percent (92%) of businesses in Ghana. The small scale enterprises sector absorbs more than sixty percent (60%) of employed labour force

with majority in the rural areas (GSS, 2012). This makes small scale enterprises a very important sector of the economy.

Conversely, Coleman and Chon (2001) observe that debt has the ability to cause the non-performance of small scale enterprises. Most empirical studies on the impact of debt management on the performance of businesses have focused basically on large scale businesses in developed countries (Coleman and Cohn, 2001; Eriotis *et al.*, 2002). Yet, of recent, there has been an increase in the recognition of the role played by small scale firms in national economies. The contribution of small scale enterprises to job creation, revenue mobilisation and poverty alleviation has been recognised by many governments in developing countries to the extent that small scale enterprises are now included in their development plans (Coleman and Cohn, 2001). Through such plans, support structures are provided for the growth of the small scale firms' including funding and concessional loans, usually at concessionary rates. Meanwhile, Abor and Biekpe (2006) questions whether the use of such debt improve businesses' performance and hence enhancing sustainability (Abor and Biekpe, 2006).

Despite the recognition and support in Ghana, Abanis *et al.* (2013) asserts that small scale enterprises faces several constraints including lack of power supply, capacity under-utilisation, insufficient research and development, poor access to credit facility, price controls since 2001, shortage of foreign currency and fuel. Therefore, servicing debt has become imperative due to insufficient capital in the running of many small scale enterprises in Ghana. Managing the debt of such businesses has become a necessity if these businesses desire growth. This means that the management of such firms needs to appreciate the implication of the use of debt in financing their business operations. They need to deploy appropriate financing strategy to drive better organisational performance (Akorsu and Agyapong, 2012). The use of debt management becomes imperative in small scale enterprises in developing countries such as Ghana.

Small scale enterprises (SSBs) are nuanced and hence defy a single definition. Definitions of small scale enterprises mostly centre around issues such as size of assets, size of employee requirements, annual turnover, technology and infrastructure requirements, flexibility of start up and management structure. This has made the conceptualization of small scale enterprises vary from country to country. This study therefore synthesises some of the various definitions of small scale enterprises. The Australian Bureau of Statistics (2002) defines small scale businesses (excluding agriculture) as businesses that employ less than or equal to 200 people. In short, small scale enterprises could be described as any non-farm business activity that an individual or group deliberately undertake with the intention of making profit. As such, this study assesses debt financing schemes and their impact on the performance of small scale enterprises in the Kumasi Metropolis. It therefore examines how debts are managed for better performance of small scale enterprises and adopts the theory of capital structure propounded by Franco Modigliani and Merton Miller in 1963.

2. DEBT MANAGEMENT AND PERFORMANCE OF SMALL SCALE ENTERPRISES

Small scale enterprises just like other organisations need capital to run their operations. As earlier alluded to, generating capital through credit systems has become a necessity for the growth of small scale enterprises. This creates debt for such businesses. Tantum (2003) advances that debt is the amount of taxes incurred during a tax period which are payable to some type of governmental jurisdiction. Aspen Law and Business (2004) defines debt as an amount owed to a person or organization for funds borrowed. For the purposes of this study, debt is defined as any amount due to any authority for which payment has not been effected. Debt take many forms and can be represented by a bond, loan note, mortgage as well as other repayment terms and, when necessary, interest requirements. These different forms are indications of the intent to pay back the amount owed at an agreed date as is set forth in the repayment terms.

Wallitsch (2007) argues that debt management is any approach that is adopted to guide an individual or business organisation to manage its debt. This definition includes debt settlement, bankruptcy, debt consolidation, personal loans as well as other techniques that assist businesses to service outstanding debts. Root (2009) contends that, debt management is an act of trying to get one's debt under control and become responsible for repaying associated obligations. It can therefore be inferred that debt management is a conscious measure taken by a debtor or agents hired on their behalf to reduce the debt burden or strategize to eliminate the debt through acceptable payment terms. Cecchetti *et al.* (2011) observe that a reasonable debt level improves welfare and enhances growth but high level debts can lead to a decline in growth of a firm. Reinhart *et al.* (2009) reinforces this assertion by arguing that debt impacts positively to the growth of a firm only when it is within certain levels. He opines that a firm becomes vulnerable to financial crisis when the ratio goes beyond certain levels. Stern Stewart and Company shares a similar view that high level of debt increases the probability of a firm facing financial distress. Therefore Cecchetti *et al.* (2011) contends that over borrowing by a firm can cause bankruptcy and financial ruin. Accumulating high levels of debt by a small scale enterprise will constrain its ability to undertake project that are likely to be profitable. This is because it would not be able to attract new debt from financial institutions.

A study by Yuan and Kazuyuki (2012) using a sample of Chinese listed companies showed that total debt ratio had a negative impact on fixed investment. This implies that high proportion of debt in the capital structure of a firm can harm investment using internal funds. This is because a firm with a high debt ratio can potentially channel most of its income towards debt servicing thereby forgoing investment through internal funds. Therefore the risk of a small scale enterprise increases when more debt is employed in its capital structure. It will become increasingly difficult to attract more debt for investment purposes as creditors will charge high interest rates to compensate for the high business risk. Yuan and Kazuyuki (2012) therefore argued that creditors will be reluctant to lend more funds to a highly indebted firm which resulting in underinvestment. As such, firm operations can be affected if insufficient investment is undertaken.

A study by Ahmad *et al.*(2012) in Malaysia which sought to investigate how capital structure impacts on a firm's performance by analysing the relationship between return on assets (ROA), return on equity (ROE) and short-term debt and total debt established that short-term debt and long-term debt had significant relationship with ROA. It was also established that ROE had significant relationship with short-term debt, long-term debt and total debt. A similar study by Ebaid (2009) partially agreed with the findings of Ahmad *et al.* (2012). In the study Ebaid sought to establish the nexus between debt level and financial performance of companies listed on the Egyptian Stock Exchange. The study used return on assets, return on equity and gross profit margin as dependent variables. It also used short-term debt, long-term debt and total debt as independent variables. The study found that the relationship between short-term debt and total debt on return on assets (ROA) is negative. It therefore concluded that there was no significant relationship between long-term debt financing and ROA. Soumadi and Hayajneh (2012) studying the nexus between capital structure and corporate performance in Jordanian shareholdings firms used multiple regression models by least squares (OLS) to establish the link between capital structure and corporate performance of firms over a period of 5 years. The study found that capital structure was negatively and statistically associated to the performance of the firms. The study concluded that there is a negative relationship between capital structure and firm performance for both high and low growth firms.

Maritala (2012) examined the optimal level of capital structure which enables a firm to increase its financial performance. The study found that there was a negative relationship between the firm's debt ratio and financial performance measured by return on assets and return on equity. Fosu (2013) also conducted a similar study in South Africa to investigate the relationship between capital structure and corporate performance with focus on the degree of competition. The study established that there was positive relationship between capital structure and corporate performance. Ogebe *et al.* (2013) investigated the impact of capital structure on corporate performance in Nigeria from

2000 to 2010. The study paid particular attention to macroeconomic variables (Gross Domestic Product and inflation) on firm performance. The study concluded that there was a strong relationship between leverage and corporate performance. The negative relationship was also confirmed by Mumtaz *et al.* (2013) in their study in Pakistan that sought to establish the relationship between leverage and firm performance. The study showed that financial performance of firms is significantly impacted by their capital structure.

Specifically, on the nexus between debt management and performance of small scale enterprises, the findings from the literature analysis show that debt management plays an important role in any business particularly small scale enterprises. Thus prudent debt management ensures that small scale enterprises are able to honour their debt obligations. However, as revealed by Ross *et al.* (1996) the obligations of businesses are numerous including purchases, payment of wages and salaries and taxes. Therefore the basic objective of debt management is to keep the investment in debt as low as possible while still operating the firm's activities efficiently and effectively. This is crucial for smooth and reliable business operations. Ross *et al.* (1996) further assert that an enterprise can also increase its net debt flow by slowing down disbursements. The importance of keeping debt balances by micro and small scale enterprises cannot be taken for granted. Moyer *et al.* (2001) argue that effective debt management is particularly important for small scale enterprises.

Two dominant alternative strategies to debt management have been offered by contemporary theories. These are the conservative and aggressive debt management strategies. Aggressive working capital strategies are usually associated with higher returns and risk. Conservative working capital strategies offer both lower risk and returns (Weinraub and Visscher, 1998). A study conducted by Nyamao *et al.* (2012) to investigate the effects of debt management practices on the financial performance of small scale enterprises in the Kisi South District of Kenya found that debt management practices were low amongst small scale enterprises. It also discovered that majority of them had not adopted formal debt management strategies. Similarly, their financial performance was on a low average. The study concluded that debt management practices influence the financial performance of small scale enterprise.

A similar study by Dong and Su (2010) concluded that a firm's profitability and liquidity are influenced by its debt management strategies. The study used pooled data between 2006 and 2008 to evaluate the companies listed in the Vietnam Stock Exchange focusing on cash conversion cycle and related elements to measure debt management. It found that the relationships among these variables were strongly negative. This implies that profit is negatively influenced by an increase in cash conversion cycle. It further established that profitability increases as the debtor's collection and inventory conversion periods reduce. The study also assessed debt management strategies in terms of aggressive financing and aggressive investing debt management approaches. Mathuva applied the Pearson and Spearman's correlations, the pooled ordinary least squares, and the fixed effects regression models in analysing the data. The study found a highly significant negative relationship between profitability and the time it takes for firms to collect cash from their customers. It also found a highly significant positive relationship between profitability and the period taken to convert inventories to sales and the time it takes for firms to pay creditors.

3. METHOD

3.1. Study area

The study focused on Kumasi. Kumasi is the capital of the Ashanti region of Ghana. It covers an area of approximately 254 sq. km with a population of 2,035,064. Kumasi has an estimated SME stock of 26,989 in 2014. Contextually, the study is on debt management and the performance of SMEs in the Kumasi Metropolis. It looks at the financing mechanisms used by the SMEs and how they affect their performance.

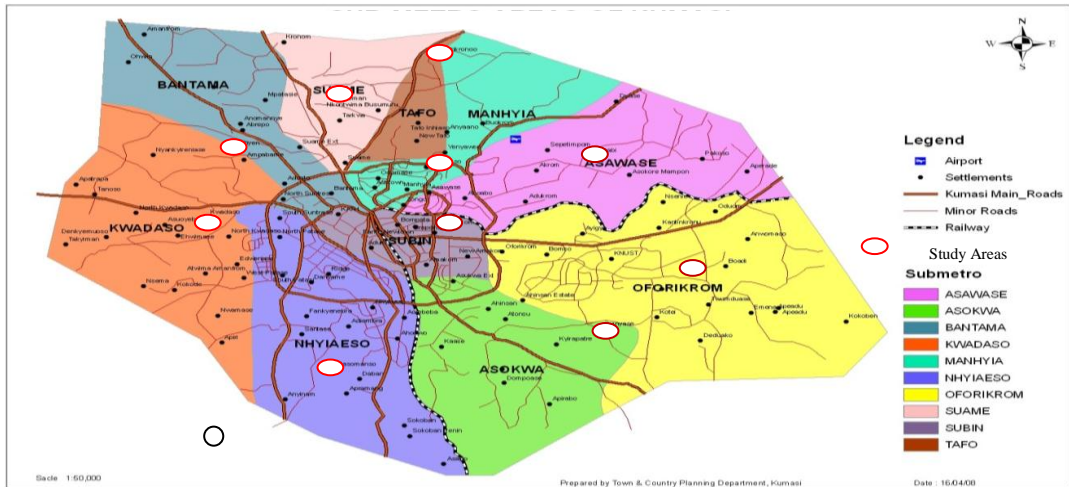


Figure-1. Map of the study area

Source: Kumasi metropolitan assembly (2010)

3.1. Research methods

The study adopted a mixed methods approach through a case study. The case study design was adopted because it relies on multiple sources of evidence (Yin, 2009). Questionnaires were employed for gathering primary data. This is because, the use of questionnaires promises a wider coverage since it helps researchers to approach respondents more easily than other methods (Amadahe, 2002). This ensured a holistic and an in-depth examination into the managing of debt and their associated effect on the performance of small scale enterprises in the Kumasi Metropolis of Ghana. This is because the study investigated the attitudes, opinions and perceptions of some selected small scale enterprise owners in the study area. The study started with the review of relevant literature on the development of and management of debt by small scale enterprises at both the international and local contexts. The review of literature served as the bedrock for understanding theoretical trends on the growth and debt management dynamics of small scale enterprises especially in the developing countries. The Slovin’s formula: $n = \frac{N}{1+N (\alpha)^2}$, where n is the sample size, N is the total small scale enterprises (sample frame) and α is the margin of error (0.08) was used to select a representative sample of 120 small scale enterprise operators for the surveys (see Table 1). The respondents were randomly selected and involved in the survey. Data was gathered from managers and/or owners of small scale enterprises through questionnaire covering the various variables identified in the literature.

Table-1. Respondents for the study

Type of Business	Frequency	Percentage (%)
Carpentry	25	21
Clothing and Textile	30	25
Cosmetics	15	13
Food services	18	15
Footwear	18	15
Other	14	11
Total	120	100

Source: Field survey, 2016

Data collected were harmonized and verified through triangulating the findings of the qualitative and quantitative data. Also, the validity of the findings was strengthened through a meeting with the participating small scale enterprises, which assisted in addressing gaps and inconsistencies that had occurred.

4. DISCUSSIONS AND RESULTS

4.1. Characteristics of small scale enterprises in the Kumasi metropolis

As presented in Table 2 the Kumasi Metropolis hosts diverse range of small scale enterprises who are involved in various activities. These small scale enterprises are classified into six major categories based on the interview data, namely carpentry, clothing and textiles, cosmetics, food services, footwear and others. The survey results revealed that majority (25 percent) of small scale enterprises in the Kumasi Metropolis are into clothing and textile (see Table 2). Another major service provided by the small scale enterprises is carpentry (21 percent). Interviews with the SMEs operators/workers indicated that the clothing and textiles as well as carpentry small scale enterprises drive the activities of the other small scale enterprises (e.g. food services, footwear and cosmetics).

Table-2. Categories and characteristics of small scale enterprises in the Kumasi metropolis

Key Sectors	No. of SSEs	No. of Employees
Carpentry	25	257
Clothing And Textile	30	198
Cosmetics	15	63
Food Services	18	46
Footwear	18	42
Other	14	93
Total	120	699

Source: Field survey, 2016

Interviews with the agencies revealed that the small scale enterprises contribute significantly to job creation in the Kumasi Metropolis.

4.2. Effects of debt on the performance of small scale enterprises

Table-3. Type of financing

Response	Frequency	Percentage (%)
Loans from Banks	65	54
Self-financing	25	21
Family and friends	30	25
Total	120	100

Source: Field survey, 2016

From Table 3, 65 small scale businesses representing 54 percent stated that they had their financing from bank loans. Also 30 respondents representing 25 percent indicated they had the financing from family and friends; 25 respondents representing 21 percent however mentioned self-financing. This implies that with poor management, several firms would run into debt because their capital bases for the business were loans.

Table-4. Adequacy of knowledge and skills on the choice of business

Response	Frequency	Percentage (%)
Strongly Disagree	42	35
Disagree	21	17.5
Neutral	9	7.5
Agree	23	19.2
Strongly Agree	25	20.8
Total	120	100

Source: Field survey, 2016

From Table 4, more than 42 respondents representing 35 percent strongly disagreed to the fact that they had in-depth knowledge on the businesses they run. Moreover, 21 respondents representing 17.5 percent disagreed to this notion too. Nine respondents representing 7.5 percent remained neutral; 25 respondents 20.8 percent strongly to the fact that they had adequate knowledge on their business; and 23 respondents representing 19.2 percent agreed to the fact they had in-depth knowledge on the types of small scale businesses they run. This implies that most small scale businesses in the metropolis are liable to debt since they have little or no knowledge on the businesses they own or run.

Table-5. Record-keeping for businesses (measures to keep records)

Response	Frequency	Percentage (%)
Strongly Disagree	35	29
Disagree	29	24
Neutral	4	3
Agree	25	21
Strongly Agree	27	23
Total	120	100

Source: Field survey, 2016

From Table 5, 35 respondents representing 29 percent of the sample strongly disagreed that they had measures in place for record keeping. Also 29 respondents representing 24 percent disagreed with the assertion. That notwithstanding, 27 respondents representing 23 percent strongly agreed that they had record keeping measures; and 25 respondents representing 21 percent also agree to this notion. However, four respondents representing 3 percent remained neutral. As much as some small scale businesses have measures for book keeping, it can be argued that most of these businesses were the microfinance groups.

Table-6. Knowledge on debt management

Response	Frequency	Percentage (%)
Strongly Disagree	37	31
Disagree	26	22
Neutral	10	8
Agree	28	23
Strongly Agree	19	16
Total	120	100

Source: Field survey, 2016

From Table 6, 37 respondents representing 31 percent strongly disagreed that they have in-depth knowledge in debt management; 26 respondents representing 22 percent disagreed that they had in-depth knowledge in debt management with 10 respondents representing 8 percent staying neutral. That notwithstanding, 28 respondents representing 23 percent and 19 respondents representing 16 percent strongly agreed or agreed to have knowledge in debt management. This implies that even though some small scale businesses mostly from the microfinance group had knowledge on debt management, more than 67 percent of these businesses had little or no knowledge on debt management.

Table-7. Debt management and firm performance

Response	Frequency	Percentage (%)
Strongly Disagree	22	18
Disagree	14	12
Neutral	6	5
Agree	33	28
Strongly Agree	45	38
Total	120	100

Source: Field survey, 2016

With regards to debt management and firm performance, Table 7 shows that 45 respondents representing 38 percent believed debt management ensures an improvement in firm performance with 33 respondents representing 28 percent agreeing to this notion too. Six respondents representing 5 percent were not certain about the impact of debt management on firm performance; 22 respondents representing 18 percent strongly disagreed to the fact that debt management impacts firm performance; and 14 respondents representing 12 percent disagreed with this notion. This implies that even though most small scale businesses had little or no knowledge on debt management, more than half of respondents believed debt management has positive repercussions on firm performance.

Table-8. Financial investment and business sustenance

Response	Frequency	Percentage (%)
Strongly Disagree	18	15
Disagree	19	16
Neutral	8	7
Agree	33	28
Strongly Agree	42	35
Total	120	100

Source: Field survey, 2016

From Table 8, 42 respondents 35 percent strongly agreed they have adequate financial investments to sustain their businesses; 33 respondents representing 28 percent agreed that they have adequate financial investments to sustain their businesses. Eight respondents representing 7 percent were uncertain about this assertion; 18 respondents representing 15 percent strongly disagreed they had adequate financial investment to sustain their businesses; and 19 respondents representing 16 percent strongly disagreeing to the notion that they have adequate financial investments to sustain their businesses. This indicates that debt management does not only improve firm performance but also helps in sustaining businesses as well.

Table-9. Capital base of small scale enterprises

Response	Frequency	Percentage (%)
Strongly Disagree	23	19
Disagree	29	24
Neutral	8	7
Agree	31	26
Strongly Agree	29	24
Total	120	100

Source: Field survey, 2016

From Table 9, 29 respondents representing 24 percent strongly agreed that they have strong capital base for their businesses; 31 respondents representing 26 percent agreed to this notion. Eight respondents remained unsure of their capital base. However, 29 respondents representing 24 percent disagreed with this notion; whilst 23 respondents representing 19 percent strongly disagreed with the assertion. This implies that irrespective of the type of business, capital investment remains integral to avoid collapse of the business. Further analysis revealed that the respondents who reported of huge capital base were from the microfinance businesses. Small scale businesses who deal with electronics, footwear and food service cried foul of the capital base needed to sustain their businesses.

Table-10. Factors for granting loans by financiers

Response	Frequency	Percentage (%)
Record compilation and accounts	48	40
Technical and management skills	17	14
Professionalism	17	14
Collateral	20	17
Knowledge of Business	18	15
Total	120	100

Source: Field survey, 2016

From Table 10, 48 respondents representing 40 percent observed that financial institutions considered record compilation and accounts before granting loans to small scale business; 20 respondents representing 17 percent opined that financial institutions or banks considered collateral to be the main issue for issuance of loans whereas 18 respondents representing 15 percent dwelled on the issue of knowledge of business as the main factor for granting of loans; and 34 respondents representing 28 percent believed financial institutions considered professionalism as well as technical and management skills of owners before granting loans to business. This indicates that all the above factors remain integral to granting loans to small scale businesses and as such should be critical in managing small scale businesses.

4.3. Causes of debts among small scale enterprises

From the results gathered, respondents shared diverse views on the causes of debts among small scale enterprises within the Kumasi Metropolis. The study considered the issue of financing to be integral to the successful running of any business; with this, study found out that many small scale enterprises in the metropolis were ran with loans from banks. This confirmation was drawn from Table 3 where more than half of the respondents (54 percent) stated that their businesses operated using bank loans. However, other business owners adopted the option of using self-financing (21 percent) and family and friends (25 percent) respectively. On the major causes of debts, it was observed that respondents' inadequacy in skills and knowledge by small scale business on their type of business goes a long way to cause debts. From Table 4, 35 percent of the respondents strongly disagreed to the notion that they had adequate knowledge of their businesses. These means they chose their form of businesses based on profits and no measures were put in place to ensure their sustenance. However, it was further revealed that some owners of small scale businesses had knowledge on their types of businesses especially the microfinance businesses. As shown in Table 4, 40 percent of the respondents strongly agreed or agreed that they had prior knowledge of their business types. Again, as shown in Table 5, more than half of respondents (64 percent) had poor methods of keeping financial records of their businesses, hence resulting in huge debts for their enterprises. The few small scale enterprises that had measures for keeping financial records again were from the microfinance businesses and a few from other sectors. This validates the findings of Ingram (2010) in his study that keeping up with your business record are one of the most important factors involved in lowering debts in small scale enterprises. Ingram (2010) further posited that many small scale enterprises lose thousands of dollars a year in legal tax write offs, money owned, and excessive debts because they did not keep good records. This notion was further buttressed by the International Finance Corporation (World Bank Group, 2007) that some form of recordkeeping is essential for all business operations and is one of the most important elements of running a successful business.

4.4. Debt Management for better business performance

Results from the study revealed several debt management strategies that could be employed to ensure efficient business performance. From Table 6, more than half of the respondents strongly disagreed and disagreed to having knowledge in debt management for efficient business growth. Few respondents agreed or strongly agreed to this assertion. With respect to managing debt, the analysis uncovered that most the small scale enterprises adopted borrowing from financial institutions as a means of recovering debt. This puts such enterprises in vulnerable positions. Wild

et al. (2005) argues that a firm's inadequacy to meet expenses and upcoming liabilities renders it susceptible to liquidity and eventual close down. Almost 67 percent of respondents emphasized on the impact of debt management on firm performance. From Table 7, 64 percent of the respondents strongly agreed or agreed to the fact that effective debt management practices imply good firm performance. Even though respondents emphasised debt management as means to business growth, respondents asserts monetary investment into any small scale business remains integral to sustaining the business. Table 8 indicates that 63 percent of the respondents strongly agreed or agreed to this assertion. Raheman and Mohamed (2007) suggested that efficient management and financing of working capital can increase the operating profitability of manufacturing firms. This was further buttressed by Suwastika and Anand (2012) that micro, small and medium enterprises (MSME) owners/managers need to realise that the real success of a business is based on their ability to keep close control over debt flows, avoiding holding excessive stocks and collecting debts on time.

4.5. Financing of small scale enterprises

Respondents gave divergent views on how small scale enterprises are financed. From Table 9, exactly half of the respondents observed that they have strong capital base for their businesses; that notwithstanding, about 34 percent of the respondents disagreed or strongly disagreed to having a strong capital base for their businesses. Respondents were however asked to give their views on the factors financial institutions consider before granting loans to small scale enterprises. Most respondents opined that record compilation and accounts was the main factor financial institutions considered before granting loans. This support the argument of Thevaruban (2009) that small scale businesses find it extremely difficult to get outside credit because the cash inflow and savings of the small scale enterprises in the small scale sector is significantly low. The study further observed there is no or poor record compilation of business activities as well as accounts. This limited their chances of accessing loans and other support facilities. Other factors that were revealed according to Table 10 include collateral, professionalism, technical and management skills and knowledge of business. Pettit and Singer (1985) study underscored that financing is the most difficult problems of the small scale enterprises. External finance is more expensive than internal finance (Datta, 2010). The analysis shows that unless small scale enterprises were willing to go by the terms of financial institutions such as the provision of collaterals, they would always be denied access to loans to support their businesses. Therefore, the study discovered that this situation forces small scale enterprises to resort to internal finance as an option which in one way or the other was just not enough for the growth and development of their businesses.

5. CONCLUSION

This study was undertaken to identify how debt management impacts performance in selected SSBs in the Kumasi Metropolis. The study showed that with the exception of microfinance group of small scale enterprises, most small scale enterprises lacked in-depth knowledge on the issue of debt management. It was also revealed that most small scale enterprises used as their capital base loans from banks and other financial institutions. The study uncovered that the major cause of debts among small scale enterprises were lack of advice on the business type and finances, lack of knowledge on the type of business and poor methods of keeping financial records. However, the study revealed that almost all small scale enterprises took to borrowing to augment their funds when in time of need; with financial institutions considering factors such as collateral, financial records and accounts, professionalism etc. before granting loans. Thus an inappropriate debt management practices put these businesses at risk of liquidity and hence affect their performance. The study further found that debt management impacts on firm performance with majority of the respondents holding the view that appropriate debt management practices leads to the success of their businesses.

6. RECOMMENDATIONS

From the discussions and findings, small scale enterprises must hire financial experts to help them manage their businesses as well as to deal with the issue of financial record keeping. Moreover, small scale enterprises should work within their budgetary limits in order to avoid higher expenditure and subsequent incurring of debts which could be detrimental to the performance of their businesses. On the other hand, financial institutions should observe thoroughly the type of businesses, knowledge in the type of businesses etc. before granting loans to small scale enterprises. That notwithstanding, financial institutions should also strive to give expert advice on business management to their clients specifically small scale enterprises. It must however be said that the government should reduce taxes on loans to reduce interest rates. This will enhance the access to loans by small scale enterprises to facilitate their growth and performance.

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