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Financial Management Practices and Profitability of Business Enterprises in Obuasi Municipality, Ghana

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Abstract
Literature is divided on the attribution of financial management practices on the profitability of business enterprises. This study, therefore, used empirical data, collected from ninety-eight enterprises in the Obuasi Municipality (Ghana), to investigate the impact of financial management practices on profitability of business enterprises. The study focused on two financial management practices, namely; working capital and capital budgeting management. The study confirms that the working capital and capital budgeting management were contributing to the variance of profitability measured by profit margin and return on sales. The analysis of the collected data, however, revealed that working capital management has a positive and significant effect on the profitability of business enterprises but capital budgeting management has a negative relationship with the enterprises profitability. The findings further showed that cash management theories have not been fully enforced by the enterprises in the Obuasi Municipality. The researchers therefore, recommend that financial managers should pay much attention to their financial management practices due to its positive effect on profitability of their firm.
Keywords: financial management, working capital, capital budgeting, profitability, business enterprise, Ghana

1. INTRODUCTION

The seems to be no consensus on the ascription of the nuance of financial management practices on profitability of business enterprises. Many researchers have conducted studies on factors affecting financial management premised on their objectives, but few studies have been conducted on how financial management practices impinge profitability of business enterprises especially in the developing countries. This study, therefore made an inquiry into how financial management practices impinge profitability of business enterprise in Ghana with particular focus on Obuasi Municipality. In view of this, the re-examination focused on two financial management decisions which are working capital management and capital budgeting management of business enterprises.

According to OECD (1997), business enterprises play a major role in economic growth and development, creation of employment and income generation. Business enterprises in Ghana contribute enormously to National Gross Domestic Product (GDP) and employment in the informal sector. It creates employment and leads to the export of locally manufactured goods and services as well as helping the local government authorities to generate tax revenues for socio-economic development.

Obuasi Municipality is one of the vibrant commercial centers in the Ashanti region of Ghana. According to the National Board for Small Scale Industries (NBSSI), there are about three hundred and ninety-seven business enterprises in Obuasi town. Though the number of enterprises are growing at an accelerated rate; ineffective financial management practices are presumed to persist in the municipality. This implies that some of the enterprises in Obuasi Municipality are not profitable and this might make it difficult for the enterprises to contract credit facilities from financial institutions because the financial institutions will always want to grant credit facilities to profitable enterprises.

There is therefore the need to use empirical data to examine how financial management affect business enterprises' profitability. Thus previous studies on financial management was expanded upon by way of centering on financial management practices on their profitability using empirical evidence from Obuasi Municipality.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Business enterprises are categorized predominantly based on ownership, namely; sole proprietorship, partnerships, corporations and limited liability companies including limited liability partnership. However, business enterprises could be categorized into small, medium and large based on the size. The structure of business enterprises' in Ghana is dependant on the size of the business. The National Board for Small Scale industry (NBSSI) defines small and medium enterprises in terms of non-current asset and the total number of

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employees. Enterprises with not more than nine employees are classified as small enterprises with the asset base of not exceeding ten million Ghana cedis.

According to Agyei-Mensah (2011), the major cause of these business enterprise failures in Ghana is careless financial management. The intended goals of financial management are the foundations upon which the efficiency and effectiveness of financial management are evaluated and compared. The efficient and effective acquisition and use of finance in any enterprise leads to proper employment of the enterprise's finance. The intended goals of financial management are grouped into two main components and they are maximization of profit and wealth (Paramasivan and Subramanian, 2009. English (1990) also added growth as one of the targets of financial management. Researchers who have researched into financial management have no difference when it comes to the thoughts of key financial management decisions.

According to modern theories, working capital has alternatively two strategies, namely; aggressive funding strategy and conservative funding strategy. Whereas higher returns and risk are associated with aggressive working capital management, lower risks and returns are associated with conservative working capital management (Gardner et al, 1986; Weinrand and Visscher, 1998). According to Brealey et'al (2006), in order to supervise working capital expeditiously and effectively, there is the need for businesses to focus their attention on four distinct short-term assets including accounts receivables, inventories, cash and short-term securities.

Enterprises through credit managing; that is making decisions regarding credit analysis, terms of sale and decision and collection policy can manage their accounts receivables. When enterprises sell their goods on credit, accounts receivable are accrued to the enterprises. The enterprise sometimes receives cash in weeks, or even months depending on the terms of payment. An enterprise can achieve a significant advantage in working capital if it improves the efficiency of collection. According to Brealey et'al (2006), too aggressive solicitation of cash harms the sales of the enterprise which has the potential of causing a conflict between solicitation of cash and sales.

Stenzel and Stenzel (2003) conceptualised capital budgeting as the best available option and financing decision for long-term investment that maximizes owner's wealth. Contemporary financial management theory has it that maximization of shareholders' wealth is the ultimate goal of every enterprise and in order to achieve this goal; there is the need for some decision-making processes such as investment decisions, financing decisions and the decision on the dividend policy (Correia et' al, 2001; Parkison and Ogilvie, 2002).

These decisions show that capital budgeting is essential as far as business enterprise's profitability is concerned. This means that for maximizing shareholders' wealth, capital budgeting should be given much attention. One thing that also makes capital budgeting critical is that at times it is not easy to reverse an investment that has already been undertaken without a cost.

2.1 Measurement Of Profit

Profit is either seen as accounting profit or economic profit. Accounting profit only considers the difference between total revenue and total expenses. The only problem with this kind of profit is that it ignores risk. Economic profit solves this problem by considering the opportunity cost in addition to the difference between total revenue and total expenses. According to the economists, enterprises only make profit if and only if the enterprise's profit is higher than what investors are expected to gain severally in the capital market.

There are many measures of profitability. These measures enable analysts to evaluate the enterprises' profit with respect to a given level of sales, a certain level of assets, or the owner's investment. Owners, creditors and management pay close attention to boosting profits because of the great importance the market places on earnings. To measure profitability of business enterprises, return on equity (ROE), return on sales (ROS) and return on assets (ROA) are used as the key measurement ratios. Return on equity measures the return earned on the common stockholders' investment in the enterprise. Generally, the owners are better off the higher the return on equity. Return on sales measures the percentage of each sales remaining after the enterprise has paid for its goods. Return on asset measures the overall effectiveness of management in generating profits with its available assets (Gitman and Chad, 2012).

Business enterprises profitability is influenced by factors such as revenues, capital and cost which depend on the profitability measures provided by Ross et'al (2010). Marketing, development of new products and management of sales determines the revenue but practices of financial management affect both the capital and the cost (Kieu, 2004).

2.2 Definitions of Variables

It's first necessary to have a definition of some key financial management concept in order to have better appreciation of the impact of financial management practices on profitability of business enterprises.

2.2.1 Working Capital Management

Working capital management has many nuances in literature but the common definition deals with efficient management of firm's investment in current assets and liabilities; such as cash, marketable securities, accounts receivable and inventory. According to Ross et' al (2010), working capital management is the enterprise's short-term asset and liabilities. There is the need for financial managers to comprehend the management of the short-term capital so that current assets and liabilities would be managed efficiently. The two strategies of working capital according to Gitman and Chad (2012), categorisation are aggressive and conservative strategy.

- Aggressive working capital strategy: This is a financing strategy that an enterprise uses short-term debt to finance its seasonal capital requirement.
- Conservative working capital strategy: The enterprise use long-term debt to finances its permanent and seasonal capital requirements.

2.2.2 Capital Budgeting Management

Capital budgeting is the process of appraising and picking out long-term investments that is in consonance with the goal of increasing the value of owners. According to Ross et' al (2010), capital budgeting is the process of putting an enterprise's scarce resources into long-term investment. The two main expenditures under capital budgeting are capital expenditure and operating expenditure.

- Capital expenditure dealth with when the funds invested in the enterprise are expected to yield profits over a period of time not less than one year.
- Operating expenditure also deals with when the benefit that would be received after the initial funds outlay is within one year.

Techniques of Capital budgeting include payback period, net present value and internal rate of return. Payback period talks of the amount of time that the enterprise needs to recoup its initial capital/funds invested. This is calculated from the cash flow. The difference between the value of a project and its cost constitute net present value. A project's rate of return is the discount rate that gives a zero net present value. This discount rate according to Brealey et'al (2006), is known as the internal rate of return or discounted cash flow.

3. MODELS AND RESEARCH METHODOLOGY

This section described the research methodology used in the study. The study design and sample are described as well as the instrument used to collect the data, including methods implemented to maintain the validity and reliability of the instrument. In a sequel to the above, it also gives a brief overview on the hypothesis and the estimation techniques and outlined how those techniques contributed to the success of the study.

3.1 Hypothesis And Estimation Techniques

Given that literature is divided on the attribution of financial management practices on the profitability of business enterprises, this study draw the hypothesis which would be used to answer the research questions raised as follows:

H_1: Capital Budgeting has a positive relationship to profitability of business enterprises

H_2: Working Capital Management as a financial management practice has a positive relationship to profitability of business enterprises.

This paper applied Linear Regression Models in order to test the postulated hypothesis aiming at examining the effect of financial management practices such as capital budgeting and working capital management on profitability of business enterprises. The regression model is stated in equation (1) below.

$$Y = b_0 + b_1 WCM + b_2 CBM + ui \text{...} equation\,1$$

Where

Y = Profitability

WCM = Working Capital Management

CBM = Capital Budgeting Management

b_o = intercept

b_1 and b_2 are coefficients

U_i = stochastic term

3.2 Data Source And Sampling Method

According to Awatey and Domfeh (2014); the sources of data, the methods used in collecting the data, and how the data are finally analysed, interpreted and presented affects the success or otherwise of any empirical research. The major methods for collecting the primary data from the enterprise used in this study was predominantly through the administering of questionnaire and interviews. The questionnaire was used in situations where personal interviews were not possible. Open-ended questions were used in the collection of data on financial management practices, to give the business enterprise a sense of freedom in expressing their views, together with pre-coded questions in which answers were given to the enterprise to select. The researchers used interviews to gather information that is not covered by the questionnaire especially on the financial ratios used by the enterprise.

An available records from the Business Advisory Centre of National Board for Small Scale Industries and Ghana Revenue Authority in Obuasi revealed that there are about one hundred and ninety-seven manufacturing enterprises and two hundred trading enterprises. By using a random digit table with 5 percent margin of error; ninety-nine manufacturing enterprises and one hundred trading enterprises were chosen. Using a sampling fraction of $\frac{1}{2}$, ninety-eight (98) enterprises comprises of both manufacturing and trading erterprises were sampled.

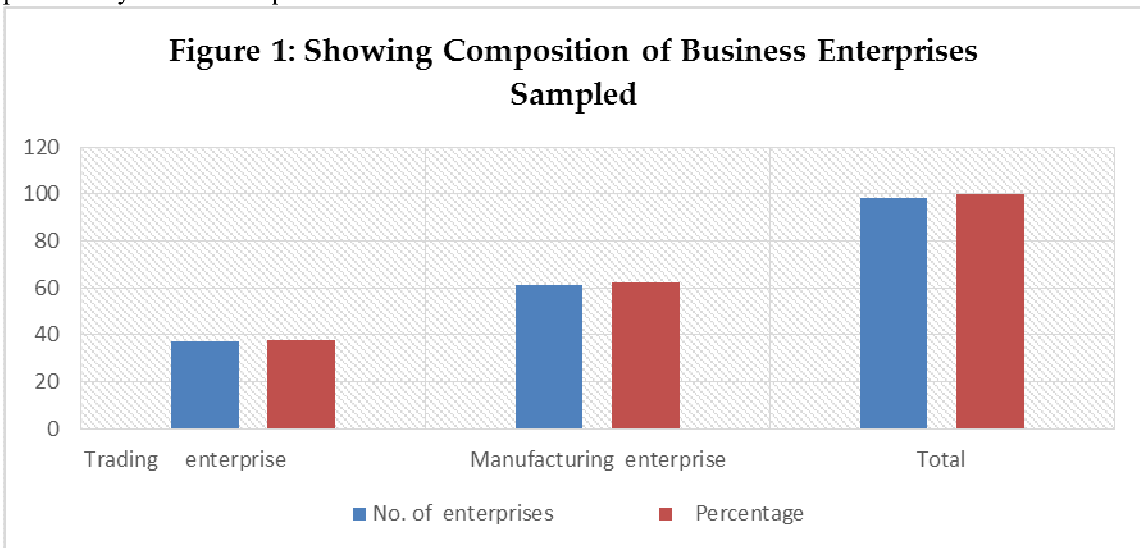
The descriptive statistics and multiple regression analysis together with bivariate data analysis were used to analyze the data that was collected. The investigations into financial management practices of business enterprises was carried-out using descriptive statistics. The data was summarised by calculating the frequency distribution, averages and percentage distribution. The researchers finally measured association among the independent variables using Pearson's correlation coefficient.

4. EMPIRICAL RESULTS AND DISCUSSIONS

This section presents the background of the business enterprises sampled and the findings of financial management practices on profitability of these business enterprises. It also focuses on the analysis of the empirical data which was collected qualitatively complemented by statistical description.

4.1 Background Of The Business Enterprises And Findings

Premised on the nuances of the attribution of financial management practices on the profitability of business enterprises; the researchers predominantly used questionnaire to collect information from ninety-eight (98) business enterprises out of the one hundred and ninety-seven manufacturing enterprises and two hundred trading enterprises in the Obuasi Municipality. The dominant method used to involve these manufacturing and trading erterprises to gain control over the process of defining the impact of financial management practices on profitability an was in-depth interview.



Source: Authours Construct from Field Survey in June, 2015

Accessing information from the questionnaire administration indicates that greater proportions of the business enterprises that were recruited in the Obuasi Municipality are manufacturing enterprises. The figure 1 above shows that sixty-two percent of the enterprises sampled are manufacturing enterprises whilst only thirty-eight percent of the business enterprises are are trading enterprises.

The findings further indicate that eighteen percent of the business enterprises sampled have been in operations less than six years and eighty-two percent has operated more than six years. It is imperious to indicate that the business enterprieses with six or more years of operations increases the profundity of the business enterprieses financial knowledge on the impact of financial management practices on business enterprises profitability.

Table 1: Characteristics of Business Enterprises

AGE OF BUSINESS ENTERPRISE	NO OF ENTERPRISES	PERCENTAGE (%)
Less than six years	18	18.3
More than six years	82	81.7
ANNUAL SALES	NO OF ENTERPRISES	PERCENTAGE (%)
less than GH¢1,000,000	53	54.1
between GH¢ (1,000,000 and 5,000,000)	42	42.9
more than GH¢ 5,000,000	3	3.1
TOTAL ASSETS	NO OF ENTERPRISES	PERCENTAGE (%)
less than GH¢1 million	77	78.5
between GH¢1-5 million	20	20.4
more than GH¢5 million	1	1.1
EMPLOYEES		
Less than 15	95	96.9
More than 15	3	3.1

Source: Authours Construct from Field Survey in June, 2015

It is very interesting to note that fifty-four percent of the enterprises have annual sales less than GH₵1m, forty-three percent have between GH₵1m and GH₵5m and only three percent record more than GH₵5m as annual sales.

It can be inferred from the table 1 above that seventy-nine percent of the business enterprises have total asset less than GH₵1m, whilst twenty of the business enterprises sampled have total asset between GH₵1m and GH₵5m and only one percent have total asset more than GH₵5m. Furthermore, ninety-seven percent of the enterprises sampled have employees less than fifteen and the enterprises that have employees more than fifteen are just three percent.

As far as response to questionnaire are concerned, there is an indication from table 2 that thirty-six percent of the business enterprises sampled prepare cash budgets often or always whilst about six percent of the business enterprises sampled never prepare cash budget.

Table 2: Cash Management Practices

FREQUENCY OF CASH BUDGET PREPARATION	NO OF ENTERPRISES	PERCENTAGE (%)
Never	6	6.1
Rarely	5	5.1
Sometimes	52	53.1
Often	24	24.5
Always	11	11.2
Never	7	7.1
Weekly	14	14.3
Monthly	57	58.2
Quarterly	14	15.3
Semiannually	4	4.1
Annually	1	1.0

Source: Authours Construct from Field Survey in June, 2015

It is very interesting to note that fifty- eight percent of the business enterprises sampled prepare a monthly cash budget, whereas fourteen percent prepare cash budget weekly, four percent and one percent prepare cash budget semi-annually and annually respectively. This information showed that most of the enterprises prepare cash budget monthly.

Table 3: Determinants of Cash Balance

DETERMINATION OF THE TARGET CASH BALANCE	NO OF ENTERPRISES	PERCENTAGE (%)
Never	10	10.2
Rarely	18	18.4
Sometimes	54	55.1
Often	12	12.2
Always	4	4.1
BASIS OF CASH BALANCE DETERMINATION	NO OF ENTERPRISES	PERCENTAGE (%)
Cash management	1	1.0
Historical data	3	3.1
Owner's/manager's experience	93	94.9
Others	1	1.0

Source: Authours Construct from Field Survey in June, 2015

On the issue of the determination of cash balance, it is clear from table 3 that sixteen percent of the business enterprises sampled often or always determine cash balance, whereas twenty-nine percent never or rarely determine the target cash balance and this gives the confirmation that most business enterprises pay little attention to the policy of cash balance. The table also reveals that about nine-five percent of the business enterprises sampled did indicate that the determination of the cash balance is based on the experience of the owner/manager. There are an insignificant percentage of the business enterprises sampled that applies theories of cash management determination. This showed that cash management theories have not been fully enforced.

Table 4: Surplus or shortage of cash

OCCURRENCE OF CASH SHORTAGE	NO OF ENTERPRISES	PERCENTAGE (%)
Never	10	10.2
Rarely	5	5.1
Sometimes	78	79.6
Often	3	3.1
Always	2	2.0
OCCURRENCE OF CASH SURPLUS	NO OF ENTERPRISES	PERCENTAGE (%)
Never	4	4.1
Rarely	56	57.1
Sometimes	31	31.6
Often	5	5.1
Always	2	2.0
INVESTMENT OF CASH SURPLUS	NO OF ENTERPRISES	PERCENTAGE (%)
Bank deposit	22	22.4
Treasury bill purchase	6	6.1
No investment	65	66.3
Others	5	5.1

Source: Authours Construct from Field Survey in June, 2015

About fifteen percent of the businesses have never or rarely been on the shortage of cash, only five percent of the business enterprises sampled always or often have cash that is not sufficient for their activities/operations (Table 4). Conversely, the business enterprises sampled who answered that they sometimes, always or often have cash surplus constitute thirty-nine percent. Sixty-one percent never or rarely have cash surplus.

It is surprising to notice from Table 4 above that about sixty-six percent of the business enterprises sampled does not invest their cash surplus to earn profit. Twenty-two percent put their cash surplus in their bank account so that they will earn interest on their cash deposit. Only six percent put their cash surplus in the money market to purchase money market instruments such as treasury bills.

In summary thirty-six percent of the business enterprises sampled often or always prepare cash budget and most of the enterprise prepare and review cash budget on a monthly basis. Only five percent of the business enterprises sampled are often or always in shortage of cash whiles seven percent often or always record cash surplus but only twenty-two of the enterprises put their cash surplus into their bank account whereas almost sixty-six percent surprisingly do not invest their cash surplus to earn profit.

Table 5: Sales on credit and credit policies

SELL PRODUCT ON CREDIT	NO OF ENTERPRISES	PERCENTAGE (%)
Never	5	5.1
Rarely	9	9.2
Sometimes	63	64.3
Often	11	11.2
Always	10	10.2
CREDIT POLICY FOR CUSTOMERS	NO OF ENTERPRISES	PERCENTAGE (%)
Never	11	11.2
Rarely	3	3.1
Sometimes	17	17.3
Often	52	53.1
Always	15	15.3

Source: Authours Construct from Field Survey in June, 2015

Table 5 reveals that twenty-one percent of the business enterprises sampled often or always have their product being sold on credit, only fourteen percent rarely or never sell their products on credit. It is interesting to note that only sixty-eight percent often or always set up credit policy on their customers whilst eleven percent of the business enterprises sampled have no credit policy for their customers but whoever wants to buy on credit from the enterprise is permitted to do so.

Table 6: Accounts Receivable Levels And Bad Debt

REVIEW RECEIVABLE LEVELS	NO OF ENTERPRISES	PERCENTAGE (%)
Weekly	14	14.3
Monthly	72	73.5
Quarterly	7	7.1
Annually	5	5.1
REVIEW BAD DEBTS	NO OF ENTERPRISES	PERCENTAGE (%)
Never	4	4.1
Weekly	21	21.1
Monthly	65	66.3
Quarterly	3	3.1
Semiannually	3	3.1
Annually	2	2.0
BAD DEBT PERCENTAGES	NO OF ENTERPRISES	PERCENTAGE (%)
Less than 5%	45	45.9
5-10%	39	39.8
10-20%	5	5.1
More than 20%	2	2.0
Don’t know	7	7.1

Source: Authours Construct from Field Survey in June, 2015

The data collected reveals that seventy-four percent and sixty-six percent of the business enterprises sampled review the level of receivables and bad debt respectively on a monthly basis. However, about four percent of the business enterprises sampled never review bad debt. The analysis of the bad debt to sales in terms of percentage showed that eighty-six percent of the business enterprises sampled have bad debt that is not more than ten percent of their sales. Only seven percent of the enterprises answered that they have no knowledge about the ratio of their dab debt to sales as shown in Table 6.

In summary, twenty-one percent of the enterprises often or always have their products sold on credit and sixty-eight percent of the enterprises have a credit policy for their customers. The majority of the enterprises review their accounts receivable levels and bad debts on a monthly basis which showed that enterprises control and management of the bad debts is at a low level.

4.2 Practices of Inventory Management

A further probing was done by the researchers to ascertain the inventory management practices of the business enterprises sampled. Questions posed included how enterprises prepare and review inventory budgets, determination of the level of inventory.

Table 7: Determination Of Inventory Levels And Budgets

REVIEW INVENTORY LEVELS	NO OF ENTERPRISES	PERCENTAGE (%)
Never	3	3.1
Rarely	5	5.1
Sometimes	8	8.2
Often	35	35.7
Always	47	48.0
PREPARE INVENTORY BUDGETS	NO OF ENTERPRISES	PERCENTAGE (%)
Never	2	2.0
Rarely	2	2.0
Sometimes	25	25.1
Often	31	32.5
Always	3 8	38.8

Source: Authours Construct from Field Survey in June, 2015

It can be observed from the table above that eighty-four percent of the enterprises sampled often or always review the inventory levels and seventy-one percent of the enterprises often or always prepare budgets for inventory. Only four percent never or rarely prepares budgets for inventory. Ninety-eight percent of the business enterprises sampled said the determination of inventory levels is based on the experience of their owner. The issue here is that almost all the enterprises have limited application of inventory theories.

4.3 Capital Budgeting Management Practices

Enterprises were quizzed on how frequent they evaluate investment projects and the efficiency level of reviewing the use of the fixed asset as well as the kind of methods they use to evaluate projects.

Table 8: Evaluation Of Investment Projects

EVALUATES PROJECTS BEFORE MAKING INVESTMENT DECISIONS	NO OF ENTERPRISES	PERCENTAGE (%)
Never	5	5.1
Rarely	8	8.2
Sometimes	32	32.7
Often	28	28.6
Always	25	25.5
REVIEW EFFICIENCY OF FIXED ASSET AFTER INVESTING	NO OF ENTERPRISES	PERCENTAGE (%)
Never	2	2.0
Rarely	6	6.1
Sometimes	15	15.3
Often	41	41.8
Always	34	34.7
METHOD USE TO EVALUATE INVESTMENT PROJECTS	NO OF ENTERPRISES	PERCENTAGE (%)
Payback period	91	92.9
No answer	7	7.1

Source: Authours Construct from Field Survey in June, 2015

From table 8, fifty-four percent of the business enterprises sampled often or always evaluate projects before taking decisions on the investment projects but thirteen percent rarely or never evaluate projects before taking decisions. The concern of these enterprises is not on the evaluation of project but as the need arises, they purchase fixed assets. On the efficiency level of fixed asset utilization, seventy-six percent of the enterprises often or always review the efficiency of using fixed asset for the investment.

With the kind of methods that enterprises use to evaluate projects, almost ninety-three percent of the business enterprises sampled indicated the use of payback period as the main method used for evaluating projects. The information on the capital budgeting management in this study gives a confirmation to the research conducted by Peel and Wilson (1996), and Luoma (1967). This means that other methods of evaluating investment projects such as internal rate of return, modified internal rate of return, net present value and discounted payback period are not frequently used.

In summary, almost fifty-four percent of the enterprises often or always evaluate investment projects before taking decision on investment and a high percentage of the enterprises review the efficiency level of the utilization of the fixed asset after investing (76%). Ninety-three percent of the business enterprises sampled use payback period as the main method for evaluating investment projects. The findings show that business enterprises do not have a strong regard for capital budgeting management.

4.4 Regression Results

In this regression analysis, the researchers reports the model of profitability as measured by profit margin where profitability was used as the dependent variable with working capital management and capital budgeting management as the independent variables. In the second model, return on sales was used as dependent variable while the independent variables include working capital management and capital budgeting management.

Table 9: Enterprises regression model with profitability as dependent variable

Model 1	**Un-standardized Coefficients (β)**	**Std. Error**	**Standardized Coefficients (Beta)**	**T**	**P-Values**
(Constant)	-8.224	1.045		-7.870	.012
Working capital management	.644	.071	.903	9.062	.021
Capital budgeting management	-.034	.058	-.059	-.590	.056
Model Summary					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	
	.854	.729	.72	.27914	
Anova					
Model	**Sum of Squares**	**Df**	**Mean Square**	**F**	**P-Values**
Regression	19.863	2	9.931	127.458	.031
Residual	7.402	95	.78		
Total	27.265	97			
PM=8.224+0.903WCM-0.059CBM					
Dependent Variable: Profitability					
Predictors: Capital Budgeting Management, Working Capital Management					

Source: Authours Construct from Field Survey in June, 2015

From Table 9, there is a significant correlation between profitability and identified financial management practices with coefficient of correlation R =0.85 and at the same time with the coefficient of determination R^2 = 0.73. This means that variations in profitability are explained by changes in the independent variables by seventy-three percent. Only twenty-seven percent of the variation in profitability is not explained by the working capital management and capital budgeting mangement. The summary of Analysis of Variance and F-statistics, which reveals the value of F = 127.458 is significant at the 0.031 level. Since the F value is large, the identified financial management practices contribute greatly to the variance in the business enterprises profitability.

The independent variables with the exception of capital budgeting management contributed positively in terms of the variance of business enterprises' profitability. Capital budgeting management has a negative relationship to profitability at a significant level of 0.056. This does not support the hypothesis which states that capital budgeting positively relates to profitability.

The regression analysis in table 10 also reveals that returns on sales and the two independent variables are significantly correlated with the correlation coefficient R =0.520. The table also reports the model of returns on sales with the coefficient of determination R^2 = 0.270.

Table 10: Enterprise regression model with return on sales as dependent variable

Model 2	**Unstandardized Coefficients (β)**	**Std. Error**	**Standardized Coefficients (Beta)**	**T**	**P-Values**
(Constant)	.768	.733		1.048	0.021
Working capital management	.036	.050	.911	.729	0.014
Capital budgeting management	.103	.040	.415	2.542	0.025
Model Summary					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	
	.520	.270	.255	.19581	
Anova					
Model .	**Sum of Squares**	**Df**	**Mean Square**	**F**	**P-Values**
Regression	1.347	2	.674	17.570	0.032
Residual	3.642	95	0.38		
Total	4.990	97			
ROS=0.768+0.911WCM+0.415CBM					
Dependent Variable: Return On Sales					
Predictors: Capital Budgeting Management, Working Capital Management					

Source: Authours Construct from Field Survey in June, 2015

The coefficient of determination for returns on sales models above indicated that twenty-seven percent (27%) of the variation in return on asset are explained by the working capital management and capital budgeting management. Seventy-three percent of the variations in the return on sales are not explained by the independent variables. In addition, the analysis of variance reveals that the value of F (17.570) is significant at the 0.032 level. Since the F value is large though smaller as compared to the first F value, the independent variables contribute to the variations in the business enterprises sales returns. The table also showed that all the independent variables contributed significantly in terms of the variance of business enterprises' return on sales.

The results of this study confirms the research conducted by Block (1997), that business enterprises pay much attention to cash management, accounts receivables, inventory management and capital budgeting management.

Besides, this study found out that working capital management has a positive relationship with profitability but capital budgeting management has a negative relationship with business enterprise profitability. These findings are also in consonance with the research conducted by Asuquo et' al (2012) on the effect of financial management practices on the profitability of small and medium enterprises in Nigeria.

5. CONCLUSIONS AND RECOMMENDATIONS

The findings of this empirical research showed that ninety-three percent of the enterprises sampled used payback period as the main method of evaluating investments decisions. It is rather unfortunate that sixty-six percent of the enterprises do not invest their cash surplus in the money market for profit because these enterprises have little knowledge on investing in the money market. The regression analysis also confirms that the independent variables were contributing to the variance of profitability measured by profit margin and return on sales. In addition, capital budgeting has a negative effect on business enterprise's profitability whilst working capital management has a positive effect on the profitability of business enterprises. It is recommended that since financial management practices have an effect on business enterprises profitability, financial managers should pay much attention to these practices.

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