CHRISTIAN SERVICE UNVIERSITY COLLEGE, KUMASI

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

THE IMPACT OF SOURCES OF FINANCE ON THE GROWTH OF SMALL AND MEDIUM-SCALE ENTERPRISES IN GHANA

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THIS THESIS IS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, CHRISTIAN SERVICE UNIVERSITY COLLEGE IN FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR OF BUSINESS ADMINISTRATION, ACCOUNTING OPTION

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DECLARATION

We hereby declare that the preparation and presentation of the thesis were supervised in Accordance with the guidelines on supervision laid down by Christian service University College.

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SUPERVISOR'S DECLARATION

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ABSTRACT

A number of studies have emphasized the growing importance of credit to the growth and productivity of every business entity especially Small and Medium-Sized Enterprises (SMEs). Over the years, the contributions of SMEs towards bridging the income gap, reducing unemployment, and contributing to economic growth has been enormous. Despite the strong growth prospects for SMEs, accessibility to the right sources of finance continue to be pose as a major challenge to participants in this space. This study consequently seeks to explore the sources of finance for SMEs, the impact of these sources of finance on their growth, and the challenges confronting SME finance in Ghana. This was achieved by obtaining primary data from 210 SMEs operating in Accra Metropolitan area. The data was solicited by means of a semi-structure questionnaire which were quantitatively analyzed by means of frequencies and regression technique. It was found that some common sources of finance for SMEs includes bank loans, bank overdraft, trade credit, microcredit, and funds from family & friends. The study also discovered that these sources of funds had a positive impact on growth of SMEs except microcredit which was uncovered to have a negative impact on growth of SMEs. The study also established that high interest rate, high transaction cost, unfavourable repayment terms, and collateral were some barriers to sources of finance for SMEs. It is further recommended that information on available sources of finance for SMEs be made public whilst also promoting the establishment of venture capitalists, business angels, and private equities.

DEDICATION

We dedicate this work to our families whose relentless support and love over many years laid the foundation for the discipline necessary to complete this work.

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Also, our appreciation goes to all owners/ managers of the selected SMEs for participating in the survey.

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LIST OF ABBREVIATION

AGI - Association of Ghana Industries

AMA – Accra Metropolitan Area

GDP – Gross Domestic Product

IFRS - International Financial Reporting Standards

MSME's – Micro Small and Medium-Sized Enterprises

NBSSI - National Board for Small Scale Industries

SME's – Small and Medium-Sized Enterprises

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A number of studies have emphasized the growing importance of credit to the growth and productivity of every business entity especially Small and Medium–sized Enterprises (SMEs) (Osei-Assibey, 2013). The finances of companies in developing and industrialized countries act as a mechanism for the survival and increase of businesses. Whereas new businesses need loans as start-up capital, loans for existing companies also provide a source of working capital and investment. Credit is indeed the lifeblood of any organization. Companies need capital for the purpose of buying inventory, employee remuneration and operating expenses. Improved access to credit helps SMEs' to build their productive capacity and also makes them competitive in both the local and the global market (UNCTAD, 2002). Given the restricted validity of extrapolation in the examination of company funding decisions from one context to another, we claim that a comparative method is needed. Thus, in this paper, we examine the effect of financing preference on growth of SMEs in Ghana.

Small and medium-sized enterprises (SMEs) make up a big portion of the economy and are considered in all nations as the drivers of socio-economic growth. SMEs are increasingly recognized for emerging countries as productive drivers of economic growth and a significant source of employment. Statistics from the World Bank (2012) indicate that small and medium enterprises make up over 60% of gross domestic product (GDP) and more than 70 % of total employment in developing economies. While most enterprises in all nations are SMEs (Özdemir, Ersöz & Sarıoğlu, 2011), research interest in micro, small and medium-sized companies is quite recent among both professionals and scholars. Small and medium-sized enterprises ' relevance in the economy was widely recognized as the focus moved from large companies to smaller businesses. Since then, these financial units have been seen as the heart of both domestic and international development macro and socio-economic policies.

Due to distinct socio-economic circumstances of each economic region or country focused, there are distinct categorizations of small and medium-sized enterprises. While Storey (1994) claims that "there is no single definition" of the definition of SMEs, the Bolton Committee Report (1971) defines SMEs as "businesses with a comparatively small market share, managed in a personalized manner by owners or part-owners and not through a formalized management system; and acting as distinct entities in the sense that they are not part of big companies (Bolton Report, 1971). SMEs and entrepreneurship are recognized as "a main source of dynamism, innovation and flexibility in both developed industrialized and emerging and developing economies" (OECD, 2006). SMEs are referred to as the' backbone of the European economy' as they represent 98% of all enterprises with a total of 20.7 million enterprises and represent 67% of total jobs and 58% of gross value added in the European Union as of 2012 (EC, 2012).

The economic climate of a company is a major factor in the success of the organization, particularly when small companies are anticipated to be extremely effective in allocating their scarce funds to guarantee the company survival. It is obvious that financial decisions are very crucial in companies as many factors that lead to failure can be avoided with strategies and financial choices that drive development and goal of organizations. According to some studies (Olawale, 2014), Internal and external failure factors are important. Internal factors include a lack of management expertise, lack of functional skills (i.e. preparation, scheduling, management and monitoring), inadequate training and advancement of employees, and poor customer attitudes. External factors include the absence of a supply chain and a high delivery cost, inflation, increasing market expense, lack of funding and corruption, which are largely unregulated by the company.

Many of these causes of failure are difficulties that the organization develops and implements with economic policies that can be effectively managed. For a long time, however, the analysis of financial decisions was restricted to big companies, about which comprehensive research was published (de Almeida, J. R., & Eid Jr, W. (2014). One of small businesses' primary characteristics is that they do not have useful financial data to make choices. The produced data is used to pay taxes but does not represent the organization's actual condition. Furthermore, small companies have no dedicated staff with planning, administration and financial decision-making knowledge, and the proprietor must make choices without a strong foundation. Because small business owners focus primarily on acquiring funds for operating expenses, it is hard to create financial plans: there is no understanding of how to implement them, daily issues overwhelm the decision-making of entrepreneurs, and the urgency is to fix fundamental issues to create revenue. This does not indicate, however, that financial decisions are not to be based on financial planning.

More than 90% of all Ghanaian companies can be categorized as SMEs. (KDI, 2008). This sector employs approximately 60% of the workforce (Abor & Biekpe, 2009). It is not possible to underestimate the role of SMEs in financial growth. According to Subrahmanya et.al (2010), policymakers, economists and business professionals recognize that SMEs are the drivers of economic growth, contributing to over 50 percent of the Gross Domestic Product (GDP) and providing more than 60 percent of total employment in so-called high-income developed countries. As a significant source of revenue and jobs, this target group has been recognized as the catalyst for the country's economic growth. Ghana's small and medium-sized enterprises industry has a significant role to play in stimulating financial development, as they constitute a large part of the firm's financial tissue. According to Capacity Development Centre Ghana (2012) it is also thought that SMEs contribute not less than 70% of Ghana's GDP, accounting for about 92% of Ghana's companies.

According to (Wehinger, 2014), access to credit was a main issue that has troubled SMEs worldwide. The credit crunch and its associated de-escalation of trust arising from the global financial crisis has shrunk bank loans, leading in SMEs having restricted or no access to working capital. This failure to access capital markets directly places SMEs at a competitive disadvantage compared to larger companies. It also cut their companies from expanding. (www.ifc.org/wps).

1.2 Problem Statement

For businesses, finance is important because it helps to grow business, develop and invest in production facilities and new workers (OECD, 2006b). The role of corporations in shaping economic development, job creation and poverty reduction has been given greater emphasis. Enterprises in both developing and developed countries have been described as significant avenues for jobs and job growth. Many businesses, which are ready to grow, find the funding of financial institutions often difficult to access and are therefore limited by loans. This basically reflects the 'financing gap' facing businesses, and this gap is prevalent mostly in developing countries, although it is not an issue in industrialized economies because the banks have adopted different risk-coping strategies for loans to businesses (OECD, 2006b). African countries are well known to be highly disadvantaged as far as financial growth is concerned, out of the development community (Allen et al., 2011; Beck et al., 2009; Fowoweand Abidoye, 2013; Fowowe, 2013). Therefore, for African countries the corporate funding deficit is likely to be a bigger issue than for other developed countries.

One major problem for researchers was, among others, that a large proportion of SMEs contain relatively young companies with an informal structure, so raising ample funds at cheaper costs is hard for them (Khan 2015). This is because these businesses cannot meet or have ample collateral to satisfy enforcement criteria.

In certain cases, SMEs are finding it difficult to access external debt funding because of a lack of knowledge asymmetry in solving problems with external debt providers (Abor and Biekpe, 2006; Abor & Biekpe, 2009). Research on small and medium-sized companies in Ghana focused mainly on debt-to-equity and difficulties related to the acquisition of such assets. These research has illustrated a variety of features and issues facing SMEs in Ghana. These include owner-managed high rates of interest, debt commitments, problems with open finance, lack of financial results track records. The degree to which these variables influence the form of internal financing used by SMEs in the Ghana literature, however, is not being discussed. In addition, fresh technologies have emerged for improving access for SMEs to finance, such as the introduction of international financial reporting standards (IFRS). Therefore, systematic research is required to analyze the impacts of external financing choices.

In specific, with empirical evidence from Ghana, this thesis examines the financing preferences and its effect on the growth of SMEs.

1.3 Research Objectives

The study seeks to:

1. To ascertain the various forms of financing for SMEs
2. To assess the impact of the various financing options on the growth of SMEs
3. Examine the challenges confronting SMEs financing in Ghana.

1.4 Research Questions

1. What are the various forms of financing for SMEs?
2. How does the various financing options have an impact on growth of SMEs?
3. What are the challenges confronting SMEs financing in Ghana?

1.5 Significance of the Study

The fundamental motive for this research is to assist Ghanaian SMEs know the consequences of their financial decisions and their effect on the company's development. The proposed model will help fund providers to assess their potential and existing customers quantitatively, reducing the level of uncertainty and helping them to make informed decisions. The research will also provide policymakers with a better knowledge of the dynamics of SME funding, which will improve access to internal finance for SMEs when integrated into policies. The research hopes to contribute to the global debate on encouraging financial management practices among SMEs and the current literature. The problems mentioned are intended to provide a policy framework with tasks when implemented to create the SME industry and improve access to finance for SMEs.

1.6 Scope and Delimitation of the Study

The study investigates the relationship between sources of finance and the growth of SMEs in Ghana. The sampling units comprised of SMEs operating in the Accra Metropolitan Assembly (AMA). It ignores data and events outside the sampling frame to help narrow the scope of study in order to gain greater insight, detail and understanding. A target of 250 SMEs to be included in the study sample. This comprises of SMEs registered in the Association of Ghana Industries (AGI) database. The study does not include other SMEs outside the Accra Metropolitan Assembly (AMA).

1.7 Overview of Research Methodology

In order to achieve the relevant objectives of the study, information would be required through primary and secondary sources. Primary data would be administered through a questionnaire respondents employing cluster and simple sampling techniques to collect data. The Logistic model would be used in determining both the factors that influence SMEs in choosing a financing source for their business and the impact of the chosen financing source to their business growth. Data obtained would be analyzed using Excel and STATA software. Secondary data would be solicited through work done in the area of study, the internet and other relevant sources.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Financing SMEs can be difficult to obtain even though firms want to expand and thus makes them credit restrained (Babajide, 2017). This chapter reviews some significant literature on SMEs, external financing and growth. It reviews some financial structure theories such as agency theory and pecking order theory. This is trailed by an overview of SMEs and both owner-manager and firm characteristics. It also analyzes the external finance on growth. It considers the commitments of SMEs to economic development and developing countries. Also a conceptual framework would be provided to examine the impact the sources of finance has on the growth of SMEs in Ghana.

2.2 Theories on financial capital

Relevant theories have been established for the elaboration of SMEs financial structure. Two of these include the agency theory (Jensen and Meckling, 1976), and the pecking order theory (Myers and Majluf, 1984).

Agency Theory

An agency relationship exists when the principal engages the agent to perform some activities on their behalf, which involves delegating some decision-making authority to the agent (Jensen and Meckling, 1976). Shareholders have resources to invest but may not have time to manage it; managers have the expertise to productively utilize resources but lack sufficient capital to invest. The shareholders need the manager's expertise to generate returns on their funds; the manager also needs the shareholders' funds since they may not have enough capital of their own to invest or they may want to cash out their holdings (Shleifer and Vishny, 1997). Shareholders and managers therefore enter into an agency contract where managers (agents) are given a specified pay-off to generate returns on the funds supplied by the shareholders (principals) and act in their best interest. The theory of the Agency has its origins in the work of Berle and Means (1932) which argued that the separation of company ownership and control gives management a chance to pursue personal interests rather than shared ownership interests. A basic principle of the agency dilemma is that people are more excited about achieving their own goals and desires. There is a natural inclination therefore human beings would not sacrifice their personal interests in the interests of other cultures (Daily, Dalton and Cannella, 2003). Sanusi, S.,

& Karlsruhe, D. (2015) claims that there are possible agent costs in conflict of interests, such as management decisions not maximising shareholder's interests. This situation is referred to as the agency problem that occurs as a result of dispersed shareholders in large enterprises; emerges when fund investors need to finance investment while at the same time taking the risk of acquiring business and ownership of the company and are forced to entrust supervision and direction to someone who has the expertise and skills required to carry out this function If the shareholders have complete information on investment opportunities, presented to the managers of the organization and the company, they could design complete contracts that did not give the board of directors full scope for discretion. But this is not true and the actions of management and investment opportunities are not perfectly observable by the owners, as a result, managers can engage in an opposite conduct to the owners' interests' (Kazemian, S., & Sanusi, Z. M. (2015)

Jensen and Meckling (1976) introduced the necessity of incurring agency costs to formulate mechanisms to help mitigate the agency problem and align management and shareholder interest. Other agency costs include expenses related to the audit, expenditure, monitoring and payment processes, bonding and other losses traceable to ownership and control separation. Most governance reforms in various countries were based on the effectiveness of the management board and suggested greater independence to the management of the boards as a means of enhancing the monitoring role. Companies are likely to perform well with better oversight of the independent board members. There are, however, no empirical proof of the relationship between the board's independence and its results (Dalton and Dalton, 2011; Kumar and Zattoni, 2013). Shareholders delegate managerial and control functions to the board who in turn delegate most decision-making and control functions to management, but retain ultimate control and rights to ratify and monitor major policy initiatives and to hire, fire and set the compensation of top-level management. The sort of SMEs owner-manager tends to eliminate agency conflicts. The monitoring role of boards can become less important in companies with high concentration of ownership as the concentration of ownership minimizes the problems with agencies. However, managers don't always remain unacceptably opportunistic and the roles of the management boards reach beyond management control (Sanjaya S. Gaur Hanoku Bathula Deeksha Singh, (2015), so the study commented on how small businesses prefer to overcome disputes between agencies.

Pecking Order Theory

Myers and Majluf (1984) argue that equity is a less preferred means of capital raising because, when managers issue new equity, the underlying principle here is that outsiders understand less about business prospects than the owner-manager because of information asymmetries. Instead of the interest of new investors, the owners-managers will seek to increase their worth (i.e. the existing shareholders) Therefore, if the company has attractive investment opportunities, the owner-manager does not want to sell new shares because the new shareholders would need to share some of the benefits of the investment ventures.

Pecking order theory begins with asymmetric information as managers are more aware of the opportunities, hazards, and value of their company than external investors. Asymmetric information impacts the decision between internal and external funding and debt or equity issue. Therefore, a pecking order exists to finance fresh initiatives (Shahar, et al, 2015). The pecking order theory defines a financial policy hierarchy as follows: (1) firms prefer to finance their investments with internally generated funds, i.e. retained earnings and depreciation costs ; (2) firms base the dividend payout ratios on the potential investment opportunity set and their anticipated cash flows ; (3) payout ratios tend to be sticky in the short term, so in some years internally generated funds will be sufficient for financing company needs and in some years will not be sufficient; (4) funds acquired in years of financial surpluses, after payment of dividends and funding, are intended to finance short-term financial investments or decrease debt. Companies will seek external finance when there is a financial deficit: first debt, then hybrid securities such as convertible bonds, and lastly equity issues. It should be noted that the model of Myers and Majluf (1984) assumes that decision-makers are always acting in the interests of present shareholders. Such an assumption in the context of an owner-managed company is probable to trigger an argument. However, in the situation of larger companies where executives have discretionary decision-making authority and where governance and incentive mechanisms may not fully align the interests of shareholders and executives, executives may exploit their information advantage to the detriment of shareholders. This theory will assist the study to analyze the determinants of the sources of finance for SME growth.

2.3 Overview of SMEs

The term SME does not have a universally accepted definition formally. Ward (2005) says an SME is defined per the person defining it and his or her location. Firms differ in many different ways; capital structure, sales and profit margin and employment. Others identify and describe SMEs on the basis of factors such as number of employees, annual turnover and fixed assets, operational sector and extent of internationalization, as well as legal status and production method (Abor, 2017). Although definitions based on number of employees appear to predominate, the exact number of employees varies within and across countries (Ayyagari et al., 2003; Abor, 2017). The concept of micro, small and medium-sized enterprises (MSMEs) by the World Bank (2013) is based on strength of the employees and sales turnover. Micro-enterprises have up to 10 workers and up to US$ 10,000 in sales turnover according to the categorization. Small businesses hire up to 50 employees with sales turnover of around US$ 3 million; medium-sized firms employ up to 300 staff with annual sales turnover of up to US$ 15 million. Similarly, the definition provided by the European Union categorizes companies based on employee intensity and sales turnover, albeit with different thresholds. Enterprises with fewer than 10 staff and sales turnover of € 2 million are micro; enterprises with fewer than 50 employees and sales turnover of € 10 million are small; and enterprises with fewer than 250 employees and sales turnover of € 50 million are medium sized (Oteh, 2010). The above stresses the current situation of lack of a general definition of SMEs and highlights the variations in countries.

2.3.1 SMEs in Ghana

Many scholars have defined SMEs using the different criteria, but the number of workers seems the most dominant in the definitions (Ackah & Vuvor, 2011). The Ghana Statistical Service (GSS) sees companies with fewer than 10 staff as small businesses and their counterparts as medium and big businesses with more than 10 (Kayanula and Quartey, 2000). Also used as an alternative criterion for identifying SMEs was the value of fixed assets in the company. However, both the "set asset and the number of staff" criteria are applied by the Ghana National Board for Small Scale Industries (NBSSI). The operational definition of SMEs according to the National Board for Small Scale Industries (NBSSI) entails the following; Small business is any business that employs up to 29 people. And small business is divided into: the micro and small and medium enterprises. The micro enterprises employ up to 5 employees with fixed assets (excluding land and building) not exceeding the value of $10,000; small enterprises are those employing between 6 and 29 employees or having fixed assets excluding land and building not exceeding $100,000 and; a medium-sized enterprise employ between 30 and 99 employees with fixed assets of up to $1m (Agyapong, 2010, p. 198).

Business Size	**Number of employees**	**Non-Current Asset**
Micro	1-5	$10,000
Small	6-29	$100,000
Medium	30-99	$1,000,000

Definition of SMEs based on size in Ghana, Source: NBSSI (Agyapong, 2010)

To sum up, the amount of staff and the value of fixed assets are the two common criteria used in Ghana's definition of SMEs. Due to the nature of their sector, the definition based on the amount of staff in most developing nations is lower than that used in developed nations.

2.3.2 Characteristics of SMEs in Ghana

Abor (2017) observes that most SMEs in Ghana are “one-person business”. As a result, “working proprietors” make up half of the SME workforce in Ghana while the other half is comprised of active but unpaid family members and hired workers, trainees or apprentices (Abor, 2017).

A unique feature of Ghana's SMEs, often quoted as the reason for their insufficient access to finance, is their low involvement in global and local capital markets relative to bigger companies, and this exclusion is due to the greater price of intermediating smaller projects (Ackah and Vuvor, 2011). The nature of the financial system attributes this phenomenon.

Another feature of small and medium-sized enterprises in Ghana is that their products or services are supplied by the local market. Just a few percentages of these small and medium-sized companies are willing to sell their goods overseas. This is largely due to the huge capital requirement for export trade and a low level of education, training, and awareness among some small business owners. Many of these SMEs are labour-intensive, with poor technical know-how and creativity. Most are family-owned businesses, often with little separation between corporate finances and owners of companies (Ackah and Vuvor, 2011). In fact, an SME in Ghana is most probably owned by an individual who often has limited formal education and lacks the technical know-how to use new technological tools or access the capital market, yet has the sole responsibility of the operational and strategic management of the enterprise (Ackah & Vuvor, 2011).

In Ghana, SMEs comprise a variety of companies such as supply and retail stores and supermarkets, restaurants and food suppliers, hairdressing and barbering lounges, clothing and tailoring stores, carpentry and furnishings stores as well as small-scale suppliers of various products such as fruit beverages, sachet water, etc. (Kayanula and Quartey, 2000; Ackah and Vuvor, 2011). These rural SMEs are mainly made up of family organizations, individual craftsmen, females involved in local crop food production, textiles and leather, agro-processing, wood and mining, and so on (Kayanula and Quartey, 2000).

2.3.2.1 Owner-Manager Characteristics

The owner-managers private features distinguish the capacity and probability of the firm to access internal finance (Irwin & Scott, 2010; Cassar, 2004). The reason is that in their role as the main decision-maker, the owner-manager in SME has the dominant position in the company. Neneh, (2011) indicated that previous studies have classified characteristics of entrepreneur into five categories as trait, demographic/social characteristics, behavioral/managerial characteristics, economic characteristics and human capital characteristics. Islam, Khan, Mohammad, Obaidullah and Alam, (2011) also used a similar categorization of the variable: demographic characteristic, individual characteristic, personal traits, entrepreneur orientation, and entrepreneur readiness as owner/manager characteristics. From these lists of factors, only human capital characteristic of owner/managers was considered in this study. Some of the commonly identified characteristics under these categories include gender, age, level of education and experience are determinants of access to external finance. Creditors are highly affected by handling abilities and attributes that have a major impact upon their ability to take loans (Grunert & Norden, 2012). Soft information primarily involves age, gender, education and business skills. As financial demand crosses with financing for small and medium-sized enterprises, lenders depend on more soft details (Grunert and Nord, 2012)

Owner-manager's Gender

Empirical studies by Cole and Mehran (2009) on the link between gender variations in U.S. private-owned business ownership and loan accessibility indicate that female-owned businesses are much more likely to be credit-restricted because they are more likely to be discouraged from applying for loans. However, Beck and Cull (2014) note that female-managed companies are also more likely to have credit than male-managed companies in sub-Saharan Africa. In Ghana, there is no significant gender difference in Kumah (2011) and Osei-Assibey (2014) access to credit in research.

Owner-manager's Educational level

Ahmed and Hamid (2011) found in a research that the owner's level of education is positively and significantly related to the probability of access to credit because companies in which the top manager holds a bachelor's or postgraduate degree are more likely to have access to credit than companies in which the top manager is not a graduate. Similarly, a study by Zarook et al. (2013), using 557 companies in Libya, also shows that the level of owners/managers' education has a significant impact on access to credit, an 80% rise in owners' schooling. The owner's schooling level is assessed by the number of years that the owner/manager of the business spends in formal schooling, whether the owner-manager completed high school, vocational training, and some college, graduate or postgraduate degree. However, most SME owners in the developing countries tend to have low levels of formal education.

Owner-manager's Experience

Empirical studies by Ahmed and Hamid (2011) show that the company manager owners experience and organizational competence indicates human capital quality that would probably enhance communication and negotiation with credit providers. A study by Zarook et al. (2013) found that a rise in the proportion of years of experience of executives increased access to finance by 1,062 percent. The organizational experience and abilities of the owner are evaluated by the number of years in service. Deakins et al. (2010) noted that young and inexperienced SME owners tend to be credit constrained due to variables such as limited security, absence of private resources, limited trading documents, credibility, and alternative financing sources.

2.3.2.2 Firm Characteristics

Because of the risk and expense implications of funding decisions, size plays a key role in funding decisions. A recent empirical research by Alhassan and Sakara (2014) found that the number of company features owned such as fixed assets, the size and shape of the company, as well as the business sector in the economy, are significant success factors in accessing finance in Ghana's banks. Osei-Assibey (2014) finds that the age, asset structure, and bank account holding increases the likelihood that Ghana's rural non-farm companies will have access to finance. The characteristics of the company such as the performance of the company, the innovation of the company, the size of the company, the place of the company, the age of the company, the asset structure of the company are determinants of internal finance assets.

Firm's Performance

The performance of SMEs is one of the criteria for evaluating the company's creditworthiness. Physical resources such as the production technology, machinery, equipment, plant and capacity contribute positively towards SMEs competitive advantage and eventually result in superior firm performance (Eniola, Anthony Abiodun, 2014). Pandula (2011) utilizes the average annual growth in revenues over the previous three years as measured by company results as it provides a better indication of funding requirements than a single year. Empirical evidence suggests that higher sales and revenues are correlated with increased access to credit (Aryeetey et al., 1994; Bebczuk, 2004). In reality, one of the factors for the absence of credit is bad company performance.

Firm's Innovation

Ahmed and Hamid's empirical research (2011) shows that the company's innovation also has a significant impact on the company's access to credit. On the other side, Freel (2007) finds that most innovative companies are less effective in credit markets than less innovative ones, based on a sample of 256 small companies applying for bank loans. This is due to the danger and uncertainties connected with the lender's view, particularly product innovation. These studies, however, regarded bank loans only. Also, they vary in the measurement of innovation. Ahmed and Hamid (2011) define innovative companies as those that only in the last three years have implemented a new process. With this measure, Freel (2007) also utilizes as a measure of strong innovativeness several proxies such as research and development spending as a percentage of turnover and the percentage of turnover and revenues from newly introduced products/process over the past three years.

Firm's Size

A company's size is also one of the criteria used by financial institutions to assess their creditworthiness (Pandula, 2011; Kumah, 2011). Empirical studies by Pandula (2011) show that small companies are more restricted in credit than big companies owing to their failure to provide economic data for screening demanded by financial institutions and, in most instances, lack audited financial statements. Moreover, smaller companies have less fixed assets to offer as collateral, and they also have a high risk of failure compared to big companies. This finding is corroborated by that of Ahmed and Hamid (2011), which finds that small and medium-sized companies, respectively, are 12.2 and 7.4 percent less probable than big companies to have access to internal finance, all things being equal. However, Vos et al. (2004) claim that empirical evidence does not support the common concept that small companies face funding constraints. Vos et al. (2004) claim that bigger SMEs have more alternative funding sources because they generally have superior track records to persuade potential creditors and investors to approve loans. Company size is usually defined as the number of the company's full-time employees, from top to bottom. According to Pandula (2011), the use of jobs as a proxy for company size rather than financial measures is because the amount of staff is easily understood and easily visualized, and it is also the common measure used by many governmental and other official organizations such as banks. However, the use of firm-sized financial measures would have to be adjusted in overtime for inflation.

Firm’s Location

The proximity of the company to its official establishment place (Kumah, 2011) is an important factor taken into consideration by lending organizations, especially formal financial institutions. Ahmed and Hamid (2011) find that there is a significant link between the place of a company and the accessibility of loans. In their studies, Ahmed and Hamid (2011) find that firms in metropolitan cities are more probable to have access than other firms in rural areas. Pandula (2011), however, defining the location of business by population density, discovered no evidence of any significant association between the place of a business and the probability of obtaining a bank loan due to the closeness of the place of the business to a market.

Firm's Age

Several studies have asserted that older companies face fewer restrictions on loan access compared to newer companies. Beck and Cull (2014), for example, find elderly companies with more than 15 years of operation are more likely to have access to a loan than mid-aged companies with between 6 and 15 years of operation, which are more likely to have a loan than young companies with 5 or fewer years of operation. This is because elderly companies tend to have a higher reputation than improves loan opportunities (Osei-Assibey, 2014). Baah-Nuakoh (2003) also discovers that access to finance among fresh and mature businesses is a serious constraint. This is because of the absence of appropriate data about new firms ' economic performance makes it hard for lenders to approve their demand for credit (Adomako-Ansah, 2012). Furthermore, the data needed by lenders at the moment of giving credit may be restricted for younger companies owing to the absence of proven track record making transaction costs comparatively greater for younger companies (Pandula, 2011). Also, fresh and younger companies are less likely to satisfy banks ' collateral demands as they have not accumulated enough fixed assets (Pandula, 2011; Adomako-Ansah, 2012).

Industry/Sector of the Firm

Empirical studies show that companies in the service sector are more likely to have access to credit than their counterparts in the agricultural sector owing to the low-risk rate and comparatively higher sales and income connected with the former (Kumah, 2011). Deakins et al. (2010) also discover that small and medium-sized enterprises production have less access to credit because they need more data, especially in circumstances involving new products, new technology, and diversification. This finding is compatible with that of Baah-Nuakoh (2003), whose research of 200 manufacturing companies in Ghana shows that finance is a serious constraint for companies producing timber, clothing, and furnishings.

Firm's Asset Structure

The final value of a given company is determined by the fixed asset composition. Companies with suitable asset portfolios would probably exploit investment opportunities as they expand. Many financially sound businesses have high fixed asset investment value. As the professional employees make the best use of these tools, they increase the company's return and ultimately increase the company's value (Nyamasege, D.,et al 2014). As highlighted in the literature on SME finance (Stiglitz and Weiss, 1981; Berger and Udell, 2006), collateral security is a very significant determinant of access to credit. This is due to the elevated risk associated with SME lending and transaction costs (Berger and Udell, 2006). Consequently, collateral security acts as protection against defaulting borrowers for lenders. Empirically, the asset structure of companies is often evaluated by the holding of real fixed assets by the company (Kumah, 2011; Pandula, 2011; Osei-Assibey, 2014). This is because fixed assets can be used as collateral, reducing the bank's potential losses and discouraging borrowers ' moral hazard behaviors (Bebczuk, 2004). On the other hand, it is argued that the more liquid the company's assets are, the easier it is for them to withdraw the company's money and, in case of default, transfer their risk to the lender. For example, Osei-Assibey (2014) finds that corporate property land, which is used as a proxy of its property structure, is an important determinant of rural non-farm businesses in Ghana's access to credit because this collateral saves lenders in the event of borrowers default. This finding confirms research conducted by Adomako-Ansah (2012), which demonstrates that 13 of Ghana's 15 banks and non-bank organizations regard collateral as the most significant factor in approving loans. Pandula (2011), however, does not find any important connection between the tangibility of assets (measured as the proportion of real net fixed assets to complete assets) and access to credit between 228 Sri Lankan SMEs. This is because the tangibility of assets does not always reflect the accessibility of collateral as the owner's or partners private resources, which are a significant component in the safety provided for a bank loan, are not shown in the company balance sheet. This finding is compatible with

Bebczuk's (2004) research, which found that the company's asset tangibility is not an important determinant of access to credit because banks are prepared to take a dangerous stance when making loans to SMEs.

2.3.3 Analysis of sources of finance

Finance is used by small and medium-sized enterprises to embark on feasible investment initiatives and to operate their activities when the capital and retained earnings of the owners are inadequate. Finance is primarily debt or equity raised from both formal and informal sources. External equity funding from family friends and fools can also be in the form of love cash (3F). It also involves funding for business angel, funding for venture capital, private equity, and public equity. The love cash and the funding of business angel are casual equity sources, while the other three are official sources. SMEs with internal equity financing preferences generally use unofficial sources (Walker, 1989; Berger, 1989; Gudov, 2013). In some instances, high growth and those in a strategic industry are probable to attract venture capitalist equity funding (Mac and Bhaird & Lucey, 2011). The funding of external debt involves commercial loans, bank overdrafts, bank loans, leases, and loans. Entities that prefer debt funding rely heavily on commercial loans and bank overdrafts and loans.

In general, SMEs do not prefer external equity financing because the owner-manager is unwilling to give up ownership and control. Again, comparatively high equity financing costs make companies prefer more debt. Despite these disadvantages connected with equity financing, small and medium-sized enterprises that assume equity financing benefit from their investors as they tend to participate in strategic and operational choices. Moreover, small and medium-sized enterprises using external equity funding are not required to make regular payments.

On the other side, companies that prefer debt funding maintain ownership and control and receive funding with some enjoying tax advantages at a comparatively cheaper price. Such firms ' owners are depicted as unable to comprehend the suitable sort of financing and have unrealistic expectations of fresh equity deals (Hamilton & Fox, 1998). However, the possibility of bankruptcy costs and increased financial risk is subjected to SMEs with the preference for debt. Again, the present economic situation of the companies generally has to guarantee this sort of funding (Gudov, 2013).

2.3.4 Determinants of growth on SMEs

Some variables affect a company's development that is either measured by growth in sales, jobs or profitability of which financial resource accessibility is critical (Zhou & de Wit, 2009). The argument is that it is possible to convert financial resources into other forms of assets. For example, once a company has sufficient financial resources, it can obtain the human capital, equipment, or technology required to expand its activities and/or outperform its rivals. Considering the two kinds of funding contracts already discussed and their related benefits and disadvantages, it means the distinctions in the type of funding matters. Becchetti and Trovato (2002) discovered that more than their counterparts develop companies with strong financial accessibility that is debt funding.

Generally speaking, growth determinants can be classified as individual determinants, firm determinants, strategic determinants, and environmental determinants (Zhou & de Wit, 2009; Fadahunsi, 2012). Firm determinants including variables such as age, size, type of property, economic resource and industry affect development (Zhou & de Wit, 2009). Although the law of the Gibrat indicates that the development of a company is independent of age and size (Zhou & de Wit, 2009; Fadahunsi, 2012; Becchetti & Trovato, 2002). Previous empirical studies discovered an adverse growth connection between age and size that implies that smaller and younger companies grow quicker than their counterparts. Previous studies on SME funding have identified mostly the determinants of SMEs ' capital structures and funding difficulties. These studies have come up with some determinants and difficulties including owner-managed, age, size, high-interest rates, collateral requirements, difficulty finding out about accessible finance, absence of track records on economic performance. According to Berger and Udell (1998), a financial contract design is selected for small companies based on the financial characteristics of the company, the entrepreneur, the opportunities of the company and the related information problems. Nevertheless, past studies tend to concentrate on the firm's particular determinants and also do not demonstrate the extent to which these variables affect the sort of finance that SMEs use. There is also little in the literature about how a company's development is affected by the accessibility or use of a specific sort of finance contract. This research fills these gaps by providing a holistic survey to examine the influence of firm characteristics and owner characteristics on the external financing preferences of small and medium-sized enterprises and how this preference and other company determinants affect the growth of companies.

2.4 Empirical Literature on sources of Finance on SMEs

Empirical studies recognize loan conditions such as interest rates, maturity, collateral requirements, and lending processes as significant variables explaining the credit supply of SMEs as these factors are considered to limit their funding (Stephanou and Rodriguez, 2008). Amonoo et al. (2003) discover that demand for funding among Ghana companies is also affected by charged interest rates as well as the annual profit of the owners ' equity and firm. There is an adverse connection between the interest rate (defined as the lending rate at which SMEs borrow from lending organizations) and the demand for funds and loan repayment from SMEs in both banks and non-banks. Amonoo et al. (2003) also discover that the equity of the owner is also correlated with the demand for funds from small and medium-sized enterprises as financial institutions in favor of firms with a larger share of financial capital. Small businesses in Ghana therefore mainly consider factors such as ease, flexibility, affordability, availability and successful loan demand outcomes (Osei-Assibey et al., 2012). Demirgüç-Kunt et al. (2004) discover that incorporated companies are more likely to borrow than non-incorporated companies as unlimited liability improves the hazards borne by owners of non-incorporated companies. Because of this increased risk, owners will not be willing to borrow enough to finance investment possibilities that would have been lucrative without unlimited liability. Research by Kimuyu and Omiti (2000) on institutional impediments to micro and small-scale enterprises ' access to credit in Kenya finds that characteristics of entrepreneurs and businesses explain the inclination to seek external resources. First, there is a positive correlation between the size of the company and the amount of loan demand due to the need for big companies to raise working capital (Kimuyu and Omiti, 2000). Second, the probability of applying for credit among older companies is greater because they can create connections and the reputation required to find and use credit. Moreover, formally registered companies are more likely to borrow substantially than unofficial ones because most unregistered companies are characterized by low productivity, insufficient access to infrastructure facilities and bad property rights over their company premises. Also, loan applications by female owners and companies situated in urban regions have a higher incidence than by male entrepreneurs and those situated in rural Kenya. Only ownership types are less likely to seek funds than under other ownership systems because they are less likely to take risks. Also, entrepreneurs belonging to a support group borrow more than those not due to the externality enjoyed by members of the group. In short, older, more trained businessmen who operate older, bigger, and/or registered businesses are more likely to seek out other sources of finance. These findings are verified by comparable research conducted by Messah and Wangai (2011), who investigated factors influencing loan supply among Kenyan small investors. The research aims to determine the effect of both demographic and socio-economic variables on the company's loan supply or not. Their research finds that more trained entrepreneurs, 40 years of age and above, with few dependents and greater company earnings are more likely to apply for credit from formal credit institutions. Socio-economic variables also determine whether the credit is being requested, the quantity requested, the amount of credit given, and credit rationing (Messah and Wangai, 2011).

2.5 Relationship between sources of finance and SME Growth

Access to finance is a key determinant for business start-up, development and growth for small and medium sized enterprises (SMEs) and they have very different needs and face different challenges with regard to financing compared to large businesses European Commission (2013). Traditional notions of business performance vary from one firm to the other. While some focus on productivity, profit, growth, and stability under a rational system, others may focus on the assets' durability and customers' satisfaction (Oladele, P. O., et al. 2014). In the remarks of Saad and Patel (2006) and Rosli (2011), performance is not hanged on specific success or achievement of a business. Zarook, Rahman and Khanam (2013) remarked that the performance of a firm has a great influence on access to credit. Firms with increasing sales and sales turnover have less constraint on accessing credit while poor performing firms have been found to have limited access to financing, particularly with formal source like banks.

2.6 Conceptual framework

The basic philosophy behind the design of a conceptual framework is to incorporate logically all relevant aspects of a concept in order to arrive at a mechanism that can provide the best possible description of the specified problem (Satish Kumar & Purnima Rao (2015). As financing needs and options change with the size and age of a firm, it becomes imperative to design a framework that can provide guidelines for the identification and analysis of the financing preferences of SMEs (Satish Kumar & Purnima Rao (2015). The framework is useful in guiding future research on sources of finance of SMEs and includes demand side and supply side determinants of SME financing. Figure 2.1 depicts the relationship between the owner and firm characteristics of SMES and the sources of finance on growth of SMEs.

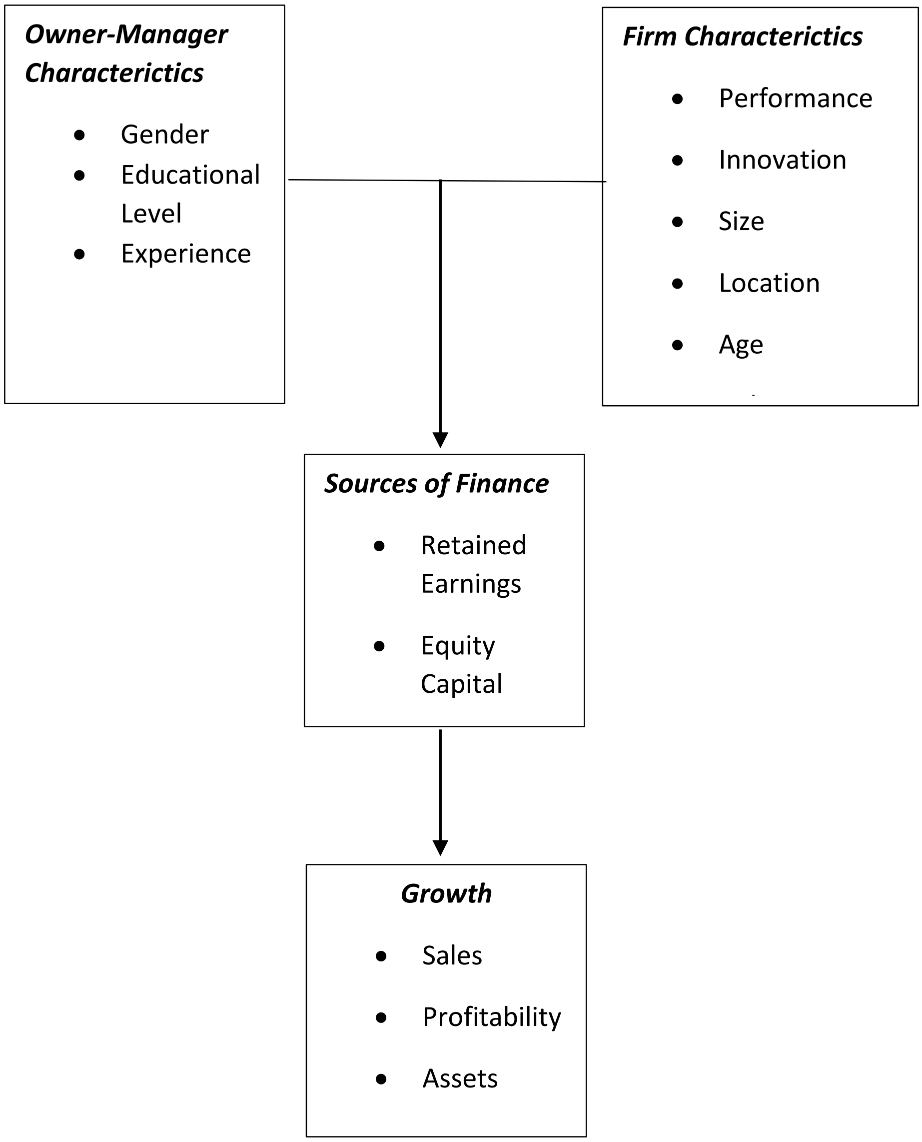

Figure 2.1 Proposed Conceptual Framework

Satish Kumar & Purnima Rao (2015) argues that interaction of these factors helps identify the current sources of finance of a firm. While examining these factors, the effect of each variable on the financing decisions of SMEs can be identified by SMEs. This can help managers more efficiently in deciding the capital structure.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the various methodologies employed in examining the impact of sources of finance on growth of SMEs in Ghana. Under this chapter, the study discusses its research design, target population, sample size determination, sampling techniques, instruments for data collections, types and source of data, reliability and validity, data analysis techniques and ethical issues.

3.2 Research Design

A research design constitutes the plan and structure of investigations so conceived as to obtain answers to a research question (Cooper and Schindler, 2014). A research design is essential in a research study as it provides the framework for specifying the relations among a study's variables. It also creates a blue print for the collection and measurement of data and for carrying out analysis of the data. The three commonly used research designs among researchers are; an exploratory, a descriptive, and a causal research designs.

An exploratory study is carried out when a researcher lacks a clear idea of the likely problems to be encountered in the course of the study, whilst a descriptive study is a more formalized study that is typically well-structured with clearly stated research questions. A casual research design on the other hand is employed when a researcher seeks to determine if one variable always causes another and no other variable has the same causal effect.

From the foregone, it is well established that a descriptive research design is well aligned with the structure, design, and objectives of the present study. According to Cooper and Schindler (2014), a descriptive research design seeks to describe a phenomenon associated with a specific population by answering questions pertaining to who, what, how, when, and where aspects of the research objectives. It aides a researcher to establish the components of a study population that share common traits for the purpose of discovering associations among different variables. These consequently meets the demand of the present study as the study seeks to gather data from a population, analyze patterns, and discover relationships and common patterns among the study's variables.

3.3 Population

Population as defined by Mugenda and Mugenda (2003), is a well-defined set of people, services, elements, and events, group of things or households that are being investigated and have observable characteristics to which the researcher intends to generalize the results of the study. Each constituent of a research population has equal chance to be included in the final sample drawn thereby making it more representative. The target population of the study comprised of 445 SMEs in the Accra Metropolitan Assembly (AMA) area which are duly registered with the Association of Ghana Industries (AGI) as of December, 2019. The Greater Accra region was chosen because it is the capital city and a major business hub in the Republic of Ghana. Consequently, within this region, there is a high concentration of SMEs. The AGI is an association with readily available information on SMEs, hence the decision to utilize this avenue as the population of the study.

3.4 Sample Size Determination

According to Agordah (2011) and Sarantakos (2005), a sample size should be carefully selected unit, which gives a true representation of an entire population. Therefore, in estimating the appropriate sample size for the study, the study adopted the formula by Slovin (1990) and Alatega (2017) which is given as follows:

$$n = \frac{N}{1 + N\,(e)^2}$$

Where n is the sample size, N being the total population and e representing the error margin estimated at 5% (0.05). Accordingly, with a target population of 445 as a result of the availability of data on SMEs from the AGI, and an error margin of 0.05, the study should use a sample size of two hundred and ten (210).

3.5 Sampling Techniques

To attain the desired result, sampling was based on probability and non-probability sampling techniques. A multi-stage sampling procedure was therefore used to avoid unbiasedness of results and to represent the true nature of the impact of sources of finance on growth of SMEs. In the first phase of the sampling procedure, the cluster sampling technique was used in dividing the metropolis into four clusters. In the second phase, the simple random sampling technique was used. Under simple random technique, all targeted participants within the study area have equal chances of being selected. This method was selected because the researcher intended to offer the target population equal opportunities of being included in the study. Where within a particular cluster, it was difficult to obtain and trace the respondents or sample, the researcher adopted a convenient sampling technique to obtain the specified number of samples. With the convenient sampling method, respondents were selected based on their availability and willingness to participate in the research.

3.6 Types and Source of Data

This study utilized a primary data collection tool in the form of administering questionnaires to source for data for the study’s analysis. Primary data collection technique has to do with data collected by an investigator or researcher personally for a specific purpose. It has an advantage over a secondary data collection technique of gathering for data that is relevant to the present course.

3.7 Instruments for Data Collection

A questionnaire was employed as the primary instrument that was used in eliciting information from the respondents. The researcher deemed the use of questionnaires as the most appropriate tool for collecting data solely made up of behavioral and attribute variables because of its inherent merit of the ease associated with coding and analyzing the data and also its convenience to respondents. Also, the wide coverage capability advantage of questionnaires contributed to the adaptation of this tool in this study. Lastly, the questionnaire provided the researcher with a consistent and uniform measure of the characteristics of SMEs and their financing choice which was easily transformed for the quantitative analysis.

The questionnaire contained twenty-nine questions which were segmented into four sections. The first section sought to capture responses relating to the firm's demographic details. This section gathered data on the core activity area, number of employees, age, legal formation status, the stage of development of the SME, and information on financial statements.

The second section of the questionnaire solicited for information relating to the firm’s ownership and management structures. Data regarding the owners of the firm, the significant capital contributor, management size, and information about managers were elicited under this section.

Section three of the questionnaire gathered data pertaining to sources of finance for SMEs in the areas of the current source of finance and the preferred or desired sources of finance. The final section of the study sought to uncover the sampled firms’ growth and growth prospects as well as challenges confronting the SME business in Ghana.

The questionnaires were pretested using a sample of 10 SME businesses selected using a convenient sampling technique from the target population. The pretesting was carried out for the purpose of assessing the viability of questions put on the questionnaire as well as to obtain suggestions and queries relating to the items on the questionnaire. Responses obtained which were mainly centered on the organization of the work and grammatical errors were addressed and the final questionnaire administered to the intended 206 respondents.

Prior to the final administering of the questionnaire, the researcher contacted the sampled firms to formally state his intension and requested that each firm nominate a key management personnel who occupies a management position for the exercise. Each firm were required to indicate the preferred means of communication that will be suitable to the selected respondent. The questionnaires were personally administered where it was possible and where restrictions limited movements and contacts, the questionnaires were electronically administered via emails. Respondents were given two weeks to complete, however, regular reminders were sent in the course of time.

3.8 Data Analysis Techniques

The study adopted a quantitative approach to meet its objectives. Preliminary statistical tests performed centered on various descriptive statistics which aided in describing the study's variables and for determining trends. The descriptive statistics was carried out on the demographic responses given in a bid to offer a general overview of Ghana's SMEs sector. Frequencies and various measures of central tendencies were employed to offer a general description of the study's variables.

In respect of the first and third objectives of the study which sought to determine the various forms of financing available to SMEs and the challenges confronting the financing of SMEs respectively, the researcher utilized frequencies to examine the responses and discover trends which aided in meeting these two objectives. The frequencies of the responses which were expressed in absolute terms and percentages created a platform to compare alternatives for the purpose of discovering the results of the alternatives against each other.

With regard to the second objective of the study which sought to assess the impact of the various sources of finance on the growth of SMEs, the study adopted a rigorous statistical methodology based on a multiple linear regression model to meet this objective. Growth was specified as a dependent variable and measured as the rate of growth in balance sheet of an entity. Sources of finance for SMEs was specified as the key independent variable. The various financing options was expressed as categorical dummy variables and regressed against the growth variables. Age and management size were set as control variables to examine how the independent variable will interact with the response variable in the presence of these key firm-specific characteristics. The ordinary least squares regression models which is based on cross-sectional data is thus specified as;

$$GROWRATE = \beta_0 + \beta_1 FINANCE + \beta_2 AGE + \beta_3 MGTSIZE + \varepsilon \; .... \; 1$$

Where;

$GROWRATE$ is dependent variable representing growth rate in balance sheet or growth in total assets. $FINANCE$ denotes the various financing options available to SMEs. $AGE, MGTSIZE$ are control variables denoting the age of the firm, and management size respectively.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter is carefully structured to prevent the results of statistical techniques employed to answer the study's research questions. The results were compared with existing literature to provide a better insight into the research problem and to offer a practical perspective of financing issues surrounding Ghana's fast rising SME space.

4.2 Descriptive Statistics

A descriptive statistics was performed on the demographic setup of the samples employed in this study. This was carried out through the use of frequencies expressed in absolute terms and percentages to provide a general overview of the samples obtained. Since the study obtained its data via a cross-sectional observation, the descriptive statistics presented below provided a snapshot summary of some of the critical items identifiable with the SME sector in Ghana.

Although constrained by availability of data in identifying SMEs within the study area, the research estimated a target population of 445 firms who are members of the AGI. Using a sample size determination technique as proposed by Alatega (2017), the study employed a multi-stage sampling technique to identify 210 SMEs within the study area.

4.2.1 Distribution of Core Economic Activity of the SMEs

Traditionally, businesses operating as SMEs in Ghana are an enhancement over the conventional petty trading that a developing nation such as Ghana is mostly identified with due to low income levels. These petty trading businesses are mostly found providing basic needs that households need for consumption. Consequently, it is expected that most SMEs be found engaging in the provision of basic household needs such as food, clothing, and other consumables.

Table 4.1: Distribution of Core Economic Activity of the SMEs

	Frequency	Percent	Cumulative Percent
Manufacturing	12	5.7	5.7
Arts, Entertainment & Recreation	6	2.9	8.6
Accommodation & Food	34	16.2	24.8
Toiletries & Cosmetics	18	8.6	33.3
Pharmaceuticals & Herbal Medicine	11	5.2	38.6
Agriculture(Crops, poultry & livestock, forestry & logging, fishing)	14	6.7	45.2
Printing, Stationery & Packaging	19	9.0	54.3
Real Estate	5	2.4	56.7
Transport and Storage	10	4.8	61.4
Building and Construction	11	5.2	66.7
Financial and Insurance	8	3.8	70.5
Wholesale and Retail Trade	16	7.6	78.1
Human Health & Social Work	12	5.7	83.8
Water supply, sewage & waste management	10	4.8	88.6
Electricity & Gas	15	7.1	95.7
Mining & Quarrying	9	4.3	100.0
Total	210	100.0	

Source: Responses from questionnaire (2020)

From table 4.1, it is found that 34 SMEs constituting the largest proportion at 16.2% engaged in the provision of accommodation and food services. Printing, stationery, and packaging businesses came in second in terms of numbers with a total of 19 entities constituting 9.0%. Firms providing toiletries and cosmetics services came in third with 18 firms engaged in such businesses with a percentage share of 8.6%. It is worth noting that engaging in these three services does not require huge capital to start and maintain, hence their dominance in the SME space.

As expected, more capital intensive businesses such as real estates, financial & insurance, and mining & quarrying had a total of 5, 8, and 9 firms constituting a percentage share of 2.4%, 3.8%, and 4.3% respectively. This notwithstanding a relatively less capital intensive venture such as arts, entertainment & recreation had 6 firms represent a percentage share of 2.9%. This is, however, as a result of the special skills required in order to undertake this venture.

4.2.2 Distribution of Employee Size of SMEs

Compared to large scale businesses, SMEs are widely characterized with fewer staff strength (Akorsu and Agyapong, 2012). Due to problems of low income, productivity, technology, and the peasant structure of Ghana’s economy, majority of businesses providing key and basic societal needs are organized on smaller scales with quite a smaller number of employees.

Table 4.2 further confirmed this phenomenon as it is observed that 159 firms representing 75.7%, employed between 5 and 30 employees. 30 SMEs representing a percentage share of 14.3% had at most 5 employees. For SMEs maintaining a relatively smaller size, such entities are often engaged in a specified service to provide some specific goods or service to a limited number of locals hence the decision to keep smaller number of staff. An SME may also employ causal and part-time staffs to augment its core staff strength, hence a decision to keep a minimal staff size. It was also observed that 1 and 20 SMEs representing 0.5% and 9.5% kept staff in the range of 30 to 99 and above 100 respectively.

Table 4.2: Distribution of Employee Size

	Frequency	Percent	Cumulative Percent
1-5	30	14.3	14.3
6-29	159	75.7	90.0
30-99	1	.5	90.5
100+	20	9.5	100.0
Total	210	100.0	

Source: Responses from questionnaire (2020)

4.2.3 Distribution of the Number of Years in Business of SMEs

The concept and implementation of SME is a relatively new development in Ghana which has been adopted to foster a move from the conventional petty trading and micro businesses. The urge to encourage a group of petty traders to merge together to enjoy economies of scale as well as the proliferation of microcredit and microfinance businesses in recent times to provide capital to small ventures has significantly contributed to the spring up in SMEs.

Table 4.3: Distribution of the Number in Years in Existence

	Frequency	Percent	Cumulative Percent
1-3	46	21.9	21.9
4-6	127	60.5	82.4
7+	37	17.6	100.0
Total	210	100.0	

Source: Responses from questionnaire (2020)

Gatherings from the respondents showed that 46 firms constituting 21.9% had been in existence for at most 3 years whiles 127 businesses representing 60.5% were aged between 3 and 7. 17.6% making up of 37 SMEs were aged at least 7.

4.2.4 Legal Formation Distribution of SMEs

Due to the persistence of low income within this region of the world coupled with difficulties in accessing credit facilities (Bondinuba, 2012), most SMEs face growth constraints and remain operating on a relatively smaller scale. Consequently, most SMEs are unable to be formally formed as public limited liability companies. Requirements often expected to be met by businesses seeking to be registered by the Registrar's General Department of the Republic of Ghana as public companies and partnerships also poses challenges to young and growing businesses to be formed as a well-structured and governed enterprises.

Table 4.4: Legal formation of SMEs

	Frequency	Percent	Cumulative Percent
Sole Proprietor	74	35.2	35.2
Partnership	48	22.9	58.1
Private Limited Company	44	21.0	79.0
Public Limited Company	38	18.1	97.1
NGO	6	2.9	100.0
Total	210	100.0	

Source: Responses from questionnaire (2020)

Responses from the questionnaire further validated the foregone conclusion as it was observed that 74 SMEs representing 35.2% were formed as sole proprietorship businesses. Sole proprietorship businesses are formed and managed one person who is responsible for directing the affairs of the business and bears all risk alone. Requirements needed to be formed as a sole proprietorship business is less demanding, hence the larger of number of firms formed on sole proprietorship basis. 48 and 6 firms representing 22.9% and 2.9% were formed as partnerships and non-governmental organizations (NGOs) respectively. Finally 44 and 38 of the sampled SMEs were registered as private and public limited liability companies respectively.

4.2.5 Distribution of Stages of Development of SMEs

Despite the fact that there have been an increasing spring up of SMEs in recent times, there have been quite a large number of SMEs that have been in existence over the past few decades. Whilst some of these much older SMEs have been well-managed and have obtained the requisite capital to transform to a full-fledged large scale enterprises, others have had their products and services pass through the start-up, fast growth, and slow growth stages of the product life cycle and are currently in their maturity stage where new businesses offering the same service or products have entered the market and competing heavily with the older businesses.

Table 4.5: Stages of Development of SMEs

	Frequency	Percent	Cumulative Percent
Start-up	41	19.5	19.5
Fast growth	71	33.8	53.3
Slow growth	61	29.0	82.4
Maturity	23	11.0	93.3
Decline	14	6.7	100.0
Total	210	100.0	

Source: Responses from questionnaire (2020)

Observations from the responses indicated that fewer number of the sampled SMEs were in their maturity and declining stages. A total of 23 and 14 constituting 11.0% and 6.7% had entered their maturity and decline stages respectively. 41, 71, and 61 firms out of a total of 210 firms representing 19.5%, 33.8%, and 29.0% were in their start-up, fast growth, and slow growth stages respectively. This further reinforces the assertion that majority of SME businesses are new and are in their fast growth stages.

4.2.6 Distribution of Significant Owners of SMEs

The dominance of sole proprietorship businesses in the SME space consequently means that a large number of SMEs are likely to be owned by individuals and directly operated by individuals have committed capital into establishing the business. The limited number of special purpose vehicles (SPVs) such as venture capitalists, business angels, and private equity for the purpose of mobilizing surplus funds with the aim of establishing and supporting young and struggling enterprises also contributes to the large of number of SMEs having a single individual as its sole or majority shareholder.

Results summarized in table 4.6 reveals that 80 SMEs representing a percentage share 38.1% have their key or significant owner(s) as an individual(s) who also runs the business. 48, 25, and 19 constituting 22.9%, 11.9%, and 9.0% of the sampled SMEs had their significant owner(s) as either entrepreneurs, family members, or private shareholders respectively. Finally, 7, 6, and 25 of the sampled SMEs comprising 3.3%, 2.9%, and 11.9% of the total number of sampled enterprises had their key owner(s) as venture capitalist, business angels, and public shareholders respectively.

Table 4.6: Distribution of Significant Owners of SMEs

	Frequency	Percent	Cumulative Percent
CEO	80	38.1	38.1
Entrepreneurs	48	22.9	61.0
Family	25	11.9	72.9
Venture Capital	7	3.3	76.2
Business Angels	6	2.9	79.0
Private Shareholder	19	9.0	88.1
Public Shareholders	25	11.9	100.0
Total	210	100.0	

Source: Responses from questionnaire (2020)

4.3 Reliability Test Analysis

The internal consistency of the questionnaire utilized in soliciting for responses was measured using the Cronbach's alpha. The Cronbach's alpha is a coefficient of reliability or consistency which gives an idea of how closely related a set of items are as a group. Most researchers assert that a reliability coefficient of at least 0.70 is considered acceptable in most social science research studies (Bunyasi, Bwisa and Namusonge, 2014). From table 4.7, the reliability test statistics generated a Cronbach's alpha coefficient of 0.741. Thus the primary data collection tool employed for the study in eliciting for information from the respondents is reliable.

Table 4.7: Reliability Statistics

Cronbach's Alpha	N of Items
.741	20

Source: Research findings (2020)

4.4 Sources of SME Financing

The first specific objective of the study sought to ascertain the various sources of finance available to SMEs in Ghana. This objective was met by asking respondents to identify the type of financing option employed by their respective firms. Due to the narrow scope of financing options to SMEs in this part of the world (Akorsu and Agyapong, 2012) and in most cases the inability to obtain the desired financing option, the respondents were also asked to identify their most preferred form of financing for their respective businesses. Responses were collated to determine trends and phenomenon via the use of frequencies expressed in absolute and percentage terms. This enabled the researcher to identify the most common source of financing for SMEs as well as the most desired financing option.

Whilst there may be a number of financing options for SMEs business, the formation and structural setups of most SMEs renders them as unqualified candidates for huge capital necessary to drive growth of the business as well as its contribution to the wider society. Personal savings, family and friends, entrepreneurs continue to be key sources of finance for SMEs as access to large funds from the capital market is mostly inaccessible to many SMEs due to requirements expected to be met before listing on the local bourse (Bondinuba, 2012; Sarba and Wen, 2013). The researcher, therefore, examined existing literature to identify common forms and sources of finance for SMEs operating in developing economies. These consisted of accrued expenses, venture capitalist, business angels, leasing or hire purchase, grants, and trade credits. Others are bank overdraft, bank loans, microcredit, equity, family & friends, financing schemes, and debt securities (Quartey et al., 2017). Table 4.8 below summaries the forms of financing commonly used by SMEs and the preferred financing option which are most inaccessible to most SMEs as a result of inherent difficulties identical to each SME.

Table 4.8: Existing and Preferred Form of Financing for SMEs

	Current Financing Option		Preferred Form of Finance	
	Frequency	Percent	Frequency	Percent
Accrued Expenses	15	7.1	14	6.7
Venture Capital	11	5.2	12	5.7
Business Angels	10	4.8	9	4.3
Leasing or Hire Purchase	6	2.9	6	2.9
No External Finance	3	1.4	3	1.4
Grants	6	2.9	6	2.9
Trade Credit	17	8.1	15	7.1
Bank Overdraft	41	19.5	40	19.0
Bank Loans	42	20.0	46	21.9
Microcredit	17	8.1	15	7.1
Equity	3	1.4	3	1.4
Family and Friends	4	1.9	4	1.9
Negotiated Financing Schemes	21	10.0	24	11.4
Debt Securities	14	6.7	13	6.2
Total	210	100.0	210	100.0

Source: Responses from questionnaire (2020)

From table 4.8, it is observed that bank loans constituted the most common form of finance among SMEs in Ghana. A total of 42 out of the 210 sampled SMEs representing a percentage share of 20.0% indicated that their entities financed their operations through bank loans. This is highly expected due to the propagation of financial inclusion measures being supported and promoted the relevant authorities such as the Bank of Ghana and pressure groups. Additionally, the coming together of two or more businesses to obtain a loan facility from a bank as a group has been of immense benefit to SMEs. These have subsequently brought the business of banking to the doorsteps of businesses organized on small and medium scales.

This notwithstanding, access to collateral often demanded by banking institutions limits the preferred volume of funds that an SME business can have access to. The collateral system also tend to deter small ventures from obtaining access to bank facilities (Kayanula and Quartey, 2000). Consequently a large number of SMEs resort to bank overdrafts to finance their businesses. A total of 41 firms constituting 19.5% indicated that they financed their businesses through the use of bank overdrafts which often are less restraining than bank loans.

In terms of the most preferred form of financing for SMEs, bank loans and bank overdrafts came in as the most desired form of funding for these entities. From table 4.8, the number of SMEs that preferred to have bank loans and bank overdrafts as major source of its funding were 46 and 40 representing 21.9% and 19.0% respectively. This showed that a good number of those entities that currently used bank loans and overdraft to finance their business considered these finance options as their preferred option whilst there were still others that desired to finance their operation via bank loans and overdrafts.

Negotiated financing schemes which entails a special arrangement between a business and an individual or another entity for the purpose of obtaining varied forms of funding including goods, services, and money was the third most common form of financing utilized by SMEs to finance their operations. 21 firms representing 10.0% of the total sample obtained indicated that they utilized negotiated financing schemes to finance their business. In terms of the number of SMEs that desired to obtain negotiated financing schemes as their preferred financing option, the number rose to 24 from 21 that presently utilized this option.

Trade credit and microcredit schemes persisted as one of the most common forms of financing for SMEs due to the relatively easy access as well as it being comparably cheaper to other forms of financing available to SMEs. 17 firms each indicated that they used trade credits and microcredit facilities to finance their businesses. These two forms of finance came as the fourth most common source of finance for SMEs in Ghana. However, in terms of trade credit and microcredit being the preferred form of financing for SMEs, the responses obtained surprisingly showed that the numbers fell marginally to 15 for each form despite the ease attached these forms of business finance.

It was quite surprising that equity and family & friends forms of financing were the least used among the SMEs sampled. This revelations comes in to debunk a widely accepted assertions that due to the small scale on which SMEs operate coupled with the informal structure of most SME businesses, equity finance and funds from family and friends are mostly used by these entities (Sarba and Wen, 2013). This notwithstanding, this revelation further underscores the low income levels of individuals which makes it difficult for SMEs to rely solely on the personal savings of its owners as well as funds of family and friends of the owner (s). A total of 3 and 4 firms constituting 1.4% and 1.9% respectively indicated that their respective enterprises utilized these two forms of finance. This trend was also observed in terms of the firms that preferred to utilize these forms of finance.

An investigation into why the sampled entities resorted to using their current choice of finance showed that 37.1% consisting of 78 firms out of the total 210 sampled indicated that their current financing option was the cheapest source of finance available to them (see appendix). Although some form of finance such as bank loan may not entirely be cheap compared to support from family & friends and trade credit, a financial asset is considered cheap from diverse perceptives such as the volume of funds that are accessible, the ease to obtain, repayment terms, and among many others. This explains why a larger number of SMEs prefer to cling to whatever source of finance they consider as inexpensive.

The investigation also revealed that quite a good number of the sampled SMEs consisting of 67 firms constituting 31.9% choose their current financing option as it was the only alternative available to them (see appendix). 40 firms representing 19.0% noted that they financed their operations with the current form of finance mainly due to the ease linked to obtaining that form of finance whilst 25 representing 11.9% remained stacked to their current financing option due to a decision by the owners not to relinquish ownership and/or control.

4.5 The Impact of the Sources of Finance on the Growth of SMEs

In ascertaining the impact of the various forms of finance employed by SMEs on the growth of the sector, an ordinary least squares regression methodology was utilized. Growth was measured as the percentage growth in the balance sheet of the SMEs. The various forms of financing SMEs were specified as dummy variables with Accrued Expenses set as the reference categorical variable. The reference variable enable the researcher to assess how the dependent variable, growth, performed in relation to each form of finance used by SMEs relative to Accrued Expense - the reference variable. The age and the size of management of each entity were also introduced into the model as control variables to examine how the various forms of finance will interact with the growth of SMEs in the presence of these control variables. Table 4.9 presents the results of the linear regression model based on equation 1.

From the regression results in table 4.9, it is observed that Trade Credit had a probability value (p-value) of 0.021 which is less than the 5% significant level and hence rejects the null hypothesis that the regression coefficient of Trade Credit is same as zero (0). It is therefore concluded that Trade Credit has a significant impact on the growth of SMEs in terms of growth in balance sheet or total assets. A regression coefficient of 0.078 was also uncovered implying that growth in SME is 7.8% higher for Trade Credit when compared to Accrued Expenses which subsequently was revealed to have no significant impact on SME growth. Thus, employing Trade Credit to finance working capital and other operational needs of SMEs drives a higher growth than using Accrued Expenses as a form of financing for SMEs.

Table 4.9: Results of Linear Regression Model

	Coefficients	Std. Error	t	P-value.
(Constant)	.797	5.766	-1.646	.101
Trade Credit	.078	5.833	.896	.021
Bank Overdraft	.146	4.908	1.367	.023
Bank Loan	.032	4.953	.292	.021
Microcredit	-.018	5.791	-.213	.042
Equity	-.009	10.299	-.139	.539
Family and Friends	.070	9.272	1.005	.036
Negotiated Financing Schemes	.075	5.574	.820	.413
Debt Securities	.061	6.079	.738	.461
Business Angels	.049	6.669	.626	.532
Leasing or Hire Purchase	-.030	7.863	-.415	.329
No External Finance	.012	10.299	.184	.504
Grants	-.054	7.865	-.750	.454
Venture Capital	.074	6.458	.941	.348
AGE	.482	1.880	7.460	.000
MGTSIZE	-.057	1.764	-.904	.367

Source: Research findings (2020)

At a p-value of 0.023, Bank Overdraft was found to have a significant impact on the growth of SMEs as a form of financing to drive SME operations. Bank Overdraft yielded a regression coefficient of 0.146 which indicates that SME growth is 14.6% higher for Bank Overdraft compared to Accrued Expenses. The higher magnitude of the impact exerted on SME growth as a result of financing business operations with bank overdraft stems from the ease associated with this facility compared to other forms of credit facilities accessible from financial institutions. It is also customarily a much cheaper source of funding for businesses compared to other forms of financing options despite its being mostly narrow in terms of volume of funds that can be assessed.

Using Bank Loan to finance the operations of an SME business was also found to impact significantly on the growth of small and medium ventures as a p-value of 0.021 was unearthed which rejects the null hypothesis that the regression coefficient is statistically not significant. Accordingly, Bank Loan was found to have a significant impact on the growth of SMEs in terms of total assets. A positive regression coefficient of 0.032 was also discovered that shows that SME growth is 3.2% higher for Bank Loan as compared to using Accrued Expenses to finance the operations and working capital of SMEs. The relatively weaker magnitude of the impact of using this form of funding to promote growth of SMEs compared to the earlier financing options comes on the back of high interest rates often associated with bank loans.

Microcredit as a form of financing option used by SMEs was found to have a significant impact on the growth of participants in the small and medium scale businesses. A p-value of 0.042 was observed such that it rejects the null hypothesis that the regression coefficient of Microcredit had no significant impact on growth. The regression model, however, generated a negative coefficient of -0.018 which reveals that growth in SME business is 1.8% lower when Microcredit is used to finance SMEs compared to using Accrued Expenses. Microcredit facilities was found to have an adverse impact on the growth of SMEs mainly due to the small funds available through microcredit facilities. These funds are often used as emergency funds to supplement or meet short-term needs other than committed to longer term use or for capital expenditure which are necessary to ensure growth.

Finally, funds provided by Family and Friends was similarly observed to have a significant impact on the growth of SMEs as a p-value of 0.036 which is less than the 0.05 level of significance, was uncovered. Therefore Family and Friends funding is found to have a significant impact on the growth in total assets of SMEs. The regression model produced a coefficient of 0.070 which reveals that growth in the balance sheet of SMEs is 7.0%% higher when Family and Friends funds is used to finance SMEs than Accrued Expenses. Finance from acquaintances are mostly readily available although often limited in scope. These funds are mostly used to meet short-term needs and in some case capital expenditures at a relatively cheaper or no cost at all.

As expected, the number of years (AGE) that an SME had been in existence was found to have a significant impact on the growth of SMEs. AGE as a control variable yielded a positive regression coefficient of 0.482 which shows that as firms increase in terms of the number of years in existence, total assets are expected to grow by 48.2%. This observation underscores the strong positive correlation between the age of a firm and growth in total assets, revenue, customer base, and other firm-specific variables. Thus for any properly managed organization, the entity will be expected to experience growth with the passage of time. This finding validates an earlier discovery made by Quartey et al. (2017) while investigating the constraints to SME financing within ECOWAS. The study found that firm age had a positive bearing on access to finance and enhance growth of SMEs.

The various forms of finance such as Equity, Debt Security, Negotiated Financing Schemes, Business Angels, Leasing & Hire Purchase, Grants, and Venture Capital were found to have no significant impact on the growth of SMEs as these forms of financing yielded p-values greater than 0.05. This observation is quite worrying due to the limited sources of finance for SMEs within the Ghanaian context which indicates that firms relies on whatever form of capital they can readily and cheaply have access to. This observation also comes on the back of the rare use of these forms of finance as has already been revealed through the study.

4.6 Challenges Confronting SME Financing

Challenges to raising finance to support SMEs remain a big blow to participants in this space (Abor, 2008). Despite intense efforts implemented over the years to ensure a surge in the number of SMEs to curb poverty and drive productivity, challenges associated with obtaining the right funding to support operational activities and fund working capital remains a major threat to the survival of this great course. Due to problems of low income in the Sub-Sharan region, of which Ghana is of no exception, owners, promoters, entrepreneurs, and originators of business ideas are often not able to use their personal resources which are mostly inadequate to setup and maintain their business. Those who attempt to seek external sources of finance are also often confronted with limited alternatives, high costs, and unrealistic demands. Table 4.10 highlights the common challenges faced by SMEs in their quest to acquire the right, cheapest, and required form of financing to support their operational activities.

It was observed that high interest rate persisted as the major challenge to SME finance in Ghana. 41 respondents constituting 19.5% indicated that their biggest challenge to obtaining the right form of financing was as a result of high interest rate demanded by financial institutions and other lenders. This finding corroborates a discovery made by Alfred and Xiao (2013) who in a study to examine the challenges associated with financing family businesses in Ghana found that high interest rate charged by the traditional banks pose a major constraint on the daily running of SMEs. This challenge is however quite difficult to deal with as Ghana continue to battle with and consistently maintain one of the highest interest rate regime in the

Sub-region. Efforts to push the policy rate lower has often been rendered futile due to high inflation rates and inherent structural challenges that the nation's economy faces. Whilst loans and other credit facilities offered by financial institutions are mostly cheap and resourceful, there need to be a dedicated effort to push interest rates on loans lower to induce private sector lending.

Table 4.10: Challenges to SME Financing

	Frequency	Percent	Cumulative Percent
Absence of alternatives	12	5.7	5.7
Cumbersome application process	16	7.6	13.3
Poor credit history	9	4.3	17.6
High transaction cost	24	11.4	29.0
High interest rate	41	19.5	48.6
Unfavourable repayment terms	30	14.3	62.9
Demand for financial statements	12	5.7	68.6
Business not registered	3	1.4	70.0
Challenges with documentation	24	11.4	81.4
Collateral required	39	18.6	100.0
Total	210	100.0	

Source: Responses from questionnaire (2020)

Other forms of challenges commonly encountered by SMEs as they aim to obtain funding for their businesses are collateral and unfavourable repayment terms associated with obtaining credit facilities. 39 and 30 SMEs representing 18.6% and 14.3% indicated that lack of collateral securities and unfavourable repayment terms respectively posed as a major barrier to obtain capital to support its operations. These two challenges are commonly associated with obtaining financial support from financial institutions. Unlike high interest rate, these challenges can easily be curbed through the implementation and a strong dedication to measures designed to limit overly demand for collateral securities and cumbersome repayment terms. This discovery is in consonance with findings made by Bondinuba (2012) who in a study to explore the challenges and barriers in assessing financial facilities by SMEs concluded that stringent collateral security requirement tend to deter managers of SMEs from accessing credit facilities. High transaction cost and challenges with documentation also persisted as a challenge to SME financing. A total of 48 firms representing 22.8% revealed that high transaction cost and documentation constraints were two critical issues that posed as a barriers in accessing finance. These two challenges are also issues associated with acquiring capital from financial institutions. Thus, a paradigm shift is needed through strategies and procedures to eliminate these barriers to finance by SMEs. Other challenges confronting SME financing included cumbersome application process (7.6%), demand for financial statements (5.7%), absence of alternatives (5.7%), poor credit history (4.3%) and inability to access credit due to business being not registered (1.4%).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

This chapter presents a careful overview of the key observations uncovered in this study. The chapter is structured to highlight summaries of the study's findings, conclusions drawn through the observation of trends and phenomenon, and finally offers recommendations for policy action and suggestions for future studies.

5.2 Summary

The generic objective of the study sought to examine the impact of sources of finance on the growth of SMEs in Ghana. This was achieved by asking three relevant specific questions that puts the broader objective of the study into the proper perspective. These questions sought to identify the sources or forms of finance available to SMEs, to determine the impact of the various sources of finance on the growth of SMEs, and finally to assess the challenges confronting SME financing.

In respect of the first specific objective of the study, it was found that bank loans and bank overdraft were the commonest sources of finance for SMEs as majority of the respondents indicated that their respective businesses funded their capital expenditures and working capital with these financing options. Close to 40% of the respondents cumulatively used these two means as the key source of finance. Microcredit and trade credit was also found to be a significant source of finance to a good number of SMEs. Other less used forms of funding for SMEs included accrued expenses, debt securities, venture capitals, business angels, and among a host of others.

In ascertaining the impact of the various sources of finance on the growth of SMEs, it was revealed that most of the commonly used sources of finance for small and medium scale ventures had a significant impact on the growth of participants in the SME sector. Forms of finance such as trade credit, bank overdraft, bank loan, microcredit, and funding from family and friends had significant and positive impact on the growth of SMEs in terms of their balance sheet or total assets.

Finally, a collation of the responses obtained showed that most of the challenges to SME financing in Ghana came by way of both explicit and tacit restrictions often accompanying acquiring funding from a financial institution. The prevalence of high interest rate in Ghana was found to be the most common barrier to acquiring the needed finance for SMEs. Others such as demand for collateral security, unfavourable repayment terms, high transaction costs, challenges with documentation, and among others persisted as challenges confronting SME finance in Ghana.

5.3 Conclusions

The scope of the present study covered a varied perspective of some critical issues inherent with the existence, management, and operations of SMEs in Ghana. In line with efforts to encourage and promote the establishment of SMEs in a growing economy such as Ghana to bridge the income gap and reduce unemployment, a comprehensive overview of the sector is needed to support this agenda. Key revelations uncovered through the study as well as some ancillary observations that were found highlights the relevance and the need to support participants operating in this space. The study consequently draws the following conclusion.

Majority of SMEs operating in a developing economy such as Ghana are organized on a relatively smaller scale compared to their counterparts in other parts of the world which creates an environment where most SMEs face several constraints. Although, businesses operating in this space are engaged in the provision of varied economic activities such as manufacturing, agriculture, real estate, transport, and a host of others, revelations that a good number of these

SMEs are organized as sole proprietorships is quite worrying. Sole proprietorship businesses are often characterized with some limitations such as poor corporate governance practices and difficulties in accessing the needed capital which translates to curb growth.

It was further found that majority of SMEs have been in business for a relatively fewer years ranging from 4 to 6 years. Consequently, a larger number of these businesses are in a stage of development where they are either experiencing fast or slow growth. Prospects for further growth remains high as it was revealed that, a significant number of the businesses had introduced over the past 12 months or intended to introduce in the next 3 years new goods & services, enhanced production processes, and expansion to new locations. Identifying the stage of development that a firm is currently experiencing is crucial for strategizing against the future.

Challenges and barriers associated with acquiring the right funding to support the operations of SMEs continue to persist and limits growth of the sector. Most SMEs are restricted in their quest to obtain easily accessible and cheap finance due to the existence of challenges hampering access to finance. High interest rate, high transaction cost, unfavourable repayment terms, collateral challenges and among others continue to limit growth prospects of SMEs as they rip SMEs of the needed resources for expansion. SMEs remain clung to a particular source of finance since it may be the only available known source of capital, whilst in some cases, owners who do not want relinquish ownership and/or control prefer to remain stuck to a particular source of funds. A further worrying development in the area of sources of finance for SMEs is the establishment that most sources of funding for SMEs do not have a significant impact on growth whilst some others have a deteriorating impact on the growth of businesses in the sector.

5.4 Recommendations

Based on the findings uncovered, the study makes the following recommendations. While, SMEs are business organizations often operated on a relatively smaller scale, the formation of most SMEs as sole proprietorship is not ideal for promoting the course and growth of SMEs. Education, training, and information are therefore needed to encourage owners of sole proprietorship businesses to open up for expansion which will create avenues for obtaining large funding to boost growth. Access to information on the various forms of finance and their respective sources is also needed to resource owners and managers of SMEs to obtain the most appropriate finance option required for growth. Education, training, and information ought to be carried by pressure groups, local government authorities, trade unions, and regulatory agencies.

An investigation into the form and sources of finance for SMEs revealed that most businesses obtain finance through the financial system by way of banking institutions and other thrift institutions. This notwithstanding, it is also revealed that demands required by potential borrowers seeking funding from these avenues contributed the highest number of challenges confronting SME finance. Policy actions are accordingly needed to curb issues such as high interest rate, demand for unrealistic collateral, high transaction costs, and unfavourable repayment terms. Implementation of these are required to make costs of borrowing cheaper for young and struggling businesses.

Due to the problem of low income and high unemployment associated with the local economy, businesses need to be mindful of the fact that financing provided by family and friends as well as personal savings of the owner maybe inadequate to drive the needed growth. Alternative sources of finance such as business angels, venture capitalists, entrepreneurs, mergers, and private equities equally serve as an effective source of finance for well governed and structured SMEs. Knowledge about these sources of finance needs to be known to owners and managers of SMEs whilst conscious efforts are also needed establish and enhance the services of these avenues.

As the concept of SMEs within the Ghanaian context is gaining traction among researchers and industry professionals, research studies are needed to effectively complement the growing concept and further provide a broader perspective of the enterprise. It is therefore recommended that future studies be targeted at exploring the broader challenges facing SMEs in Ghana whilst other researches should also aim at investigating the future prospects of the sector. Studies that seek to provide solutions to the challenges of finance for SMEs are also necessary to propel growth in the sector as well the body of knowledge on SMEs.

5.5 Research Contribution to Knowledge and Practice

This study represents one of the very few studies that focuses on the relatively underexplored SME sector in a developing country context like Ghana mainly due to the unavailability of data on this sector. Consequently, the study makes three key contribution to existing knowledge as well as implications for the industry and practice.

This study contributes to existing knowledge by unearthing the common sources of finance for SMEs. It also explored the rarely used forms of financing employed by participants in the sector in a bid to introduce these uncommon forms of finance to owners and managers of SMEs. The impact of the various sources of finance on the growth of SMEs was also uncovered through the study, thereby bringing to bear the most relevant of all the forms of financing options for SMEs. Lastly, the study contributes to existing literature by identifying the challenges confronting SMEs in their quest to access finance. This discovery presents to the relevant authorities policies actions needed to be implemented to curb these challenges.

5.6 Limitation and Future Research Direction

This study has several limitations and suggests some future research directions. First, due to the absence of comparable studies, the findings of this study was challenged as it attempted to compare its findings with existing studies which could have properly situated the discussion in the proper context. Future studies, therefore, should focus on this research area to uncover how the dynamics have changed over time.

Second, this study suffers from one of the most pronounced limitations associated with survey studies that is relying exclusively on self-reported perceptual measure as the sole source of information. The researcher, however, employed all the necessary strategies to minimize all forms of partialities and errors by exercising due diligence and employing an independent assessment and review of the study.

Finally, the use of semi-structured questionnaires meant that the research study was unable to capture rich and insightful views of owners and managers. Future studies, therefore, ought to make attempts to conduct interviews which will bring to bear some rich qualitative information about the research topic.

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APPENDIX A - QUESTIONAIRE

CHRISTIAN SERVICE UNIVERSITY COLLEGE, KUMASI

(BACHELOR OF BUSINESS ADMNISTRATION IN ACCOUNTING)

We are students of Christian Service University undertaking a project work on the topic: The Impact of sources of finance on growth of SMEs in Ghana. Please kindly give us some time to complete this questionnaire. The data collected would be strictly confidential and solely used for academic purposes. You are kindly requested to give your candidate answers to the questions below:

Instructions: Please check the apropriate box or write in the space provided

SECTION A- FIRM DEMOGRAPHICS

1. What is the core activity of your firm?

[ ] Manufacturing	[ ] Human Health & Social Work
[ ] Transport and Storage	[ ] Water Supply, Sewage & Waste Management
[ ] Building and Construction	[ ] Electricity & Gas
[ ] Financial and Insurance	[ ] Mining & Quarrying
[ ] Wholesale or Retail Trade	[ ] Toiletries & Cosmetics
[ ] Arts, Entertainment & Recreation	[ ] Pharmaceuticals & Herbal Medicine
[ ] Accommodation	[ ] Stationery & Packaging
[ ] Agriculture	[ ] Real Estate

Other; please specify……………..................….

2. How many employees are currently employed in your firm (Both full time and part time)?

1-5 [ ]   6-29 [ ]   30-99 [ ]   100+ [ ]

3. How many years have you been in business?

Below 1 year [ ]   1-3 years [ ]   4-6 years [ ]   7 years + [ ]

4. What is the legal status of your organization?

[ ] Sole Proprietorship
[ ] Public Limited Company
[ ] Partnership
[ ] Non-Governmental Organization
[ ] Private Limited Company
[ ] Privately Owned Establishment

5. What is the stage of development of your business?

[ ] Start-up (the business is starting commercialization)

[ ] Fast growth (the business growing at a rate much faster than the economy)

[ ] Slow growth (Sales are slowly increasing)

[ ] Maturity (Sales have stopped growing)

[ ] Decline (Sales have started to decrease)

6. Does your firm prepare financial statements periodically?

[ ] Yes   [ ] No (Go to question 8)

7. Are these financial statements audited? [ ] Yes [ ] No

SECTION B - FIRM'S OWNERSHIP AND MANAGEMENT

8. Who are the owners of your firm? **(Select all that apply)**

[ ] One owner only

[ ] Entrepreneurs

[ ] Family

[ ] Venture Capital

[ ] Business Angels

[ ] Public Shareholders

[ ] Private Shareholders

[ ] other enterprise or business associates

Other; please specify……………..................….

9. Who owns the largest stake in your organization? **(Select only one except there is equal holding then Select all that apply)**

[ ] One owner only

[ ] Entrepreneurs

[ ] Family

[ ] Venture Capitalist

[ ] Business Angels

[ ] Public Shareholders

[ ] Private Shareholders

[ ] Other Enterprise or Business Associates

Other; please specify……………..................….

10. What is the percentage of the largest stake of ownership in your organization?

…………………………………………………………………………………………

11. How did the owner(s) with the largest stake (aside venture capitalist and shareholders) take possession of the business?

[ ] Started from scratch

[ ] Acquired from origin owners

[ ] Inherited the business

other; please specify……………..................….

12. How many managers does your business have? ……………………………….

13. The management team is made up of [ ] Males [ ] Females

14. Do any of the managers have an ownership stake in the business?

[ ] Yes [ ] No (Go to question 17)

15. If yes, what are their managerial positions? **(Select all that apply)**

[ ] CEO [ ] Executive Director

[ ] Senior Manager [ ] Managing Director

[ ] General Manager Other; please specify……………...................…

16. How long has the top manager been in his/her managerial position? ....

17. Did the top manager have any managerial experience prior to joining the firm?

[ ] Yes [ ] No (Go to question 19)

18. If yes, for how many years did he/she manage the other business (es)? ....

19. What is the highest educational qualification of the top manager? ....

SECTION C: FIRM'S SOURCE OF FINANCING

20. Which source(s) of financing has your firm used before? (**Select all that apply**)

[ ] Accrued expenses
[ ] Trade Credit
[ ] Bank overdraft
[ ] Bank loans
[ ] Microcredit
[ ] Equity securities issued
[ ] Family and friends
[ ] Financing schemes
[ ] Debt securities issued
[ ] Venture Capital
[ ] Business Angels
[ ] Leasing or hire purchase
[ ] No external finance
[ ] Grant

Other; please specify…………….................….

21. What is your firm's preferred choice of financing? (**Select only one)**

[ ] Accrued expenses
[ ] Trade Credit
[ ] Bank overdraft
[ ] Bank loans
[ ] Microcredit
[ ] Equity securities issued
[ ] Family and friends
[ ] Financing schemes
[ ] Debt securities issued
[ ] Venture Capital
[ ] Business Angels
[ ] Leasing or hire purchase
[ ] No external finance
[ ] Grant

Other; please specify…………….................….

22. Your firm has this choice because... (**Select all that apply**)

[ ] it is the only source you know of

[ ] it is easy to access

[ ] the owners do not want to relinquish ownership or control

[ ] it is the cheapest source of finance

Other; please specify……………..................….

23. Has your firm ever invested any external funds obtained in a project different from its intended use?

[ ] Yes

[ ] No (Go to question 26)

24. Did your firm communicate the change in the use of the external funds to the providers of the funds?

[ ] Yes

[ ] No

25. How many years has your firm been in a relationship with the providers of your most important   source of external finance?

....

SECTION D: FIRM'S GROWTH AND GROWTH PROSPECTS

26. During the past 12 months has your firm...

	Yes	No
Introduced a new good or service or significantly improved its product or service?	[ ]	[ ]
Introduced a new production process or significantly increased its production level?	[ ]	[ ]
Opened a new location or significantly improved its current location?	[ ]	[ ]

27. During the next 3 years, does your firm intend to...

	Yes	No
Introduce a new good or service or significantly improved its product or service?	[ ]	[ ]
Introduce a new production process or significantly increased its production level?	[ ]	[ ]
Open a new location or significantly improved its current location?	[ ]	[ ]

28. On average, how have the following indicators of income generation changed in your firm?

	Increased	Remained Unchanged	Decreased
Sales/Revenue	[ ]	[ ]	[ ]
Net Income	[ ]	[ ]	[ ]
Non-Current Asset	[ ]	[ ]	[ ]

29. How will you categorize your firm's growth prospects over the next three years?

[ ] Stay the same

[ ] Grow slowly (below 20% per year in revenue)

[ ] Grow moderately (above 20% and below 50% per year in revenue)

[ ] Grow substantially (over 50% per year in revenue)

30. What are the challenges your firm encounters when accessing finance?

[ ] Cumbersome application process

[ ] Business not registered

[ ] High transaction cost

[ ] High interest rate

[ ] Lack of collateral

[ ] Unfavourable repayment terms

[ ] Poor credit history

[ ] Absence of alternatives

[ ] Challenges with documentation

[ ] Others Specify ………………………………………

Thank you for participating in this survey.

APPENDIX B - RESULTS

Why the preferred choice of finance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	It is the only source you know of	67	31.9	31.9	31.9
	It is easy to access	40	19.0	19.0	51.0
	The owners do not want to relinquish ownership or control	25	11.9	11.9	62.9
	It is the cheapest source of finance	78	37.1	37.1	100.0
	Total	210	100.0	100.0	

How many years has your firm been in relationship with fund providers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-3	46	21.9	21.9	21.9
	4-6	126	60.0	60.0	81.9
	7+	38	18.1	18.1	100.0
	Total	210	100.0	100.0	

During the past 12 months has your firm introduce a new good or service or significantly improve its products or service

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	121	57.6	57.6	57.6
	No	89	42.4	42.4	100.0
	Total	210	100.0	100.0	

During the past 12 months has your firm introduce a new production process of significantly increase its production

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	124	59.0	59.0	59.0
	No	86	41.0	41.0	100.0
	Total	210	100.0	100.0	

During the past 12 months has your firm open a new location or significantly improve its current location

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	129	61.4	61.4	61.4
	No	81	38.6	38.6	100.0
	Total	210	100.0	100.0	

During next 3 years, your firm intends to introduce a new goods or service or significantly improve its products or service

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	127	60.5	60.5	60.5
	No	83	39.5	39.5	100.0
	Total	210	100.0	100.0	

During next 3 years, your firm intends to introduce a new production process of significantly increase its production

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	127	60.5	60.5	60.5
	No	83	39.5	39.5	100.0
	Total	210	100.0	100.0	

During next 3 years, your firm intends to open a new location or significantly improve its current location

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	132	62.9	62.9	62.9
	No	78	37.1	37.1	100.0
	Total	210	100.0	100.0	

How has sale/revenue changed your firm?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Increased	114	54.3	54.3	54.3
	Remain unchanged	36	317.1	17.1	71.4
	Decreased	60	28.6	28.6	100.0
	Total	210	100.0	100.0	

How has net Income changed your firm?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Increased	124	59.0	59.0	59.0
	Remain unchanged	27	12.9	12.9	71.9
	Decreased	59	28.1	28.1	100.0
	Total	210	100.0	100.0	

How has net Non-Current changed your firm?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Increased	122	58.1	58.1	58.1
	Remain unchanged	30	14.3	14.3	72.4
	Decreased	58	27.6	27.6	100.0
	Total	210	100.0	100.0	

How will you categorize your firms growth over 3 yrs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	33	15.7	15.7	15.7
	10	108	51.4	51.4	67.1
	35	58	27.6	27.6	94.8
	75	11	5.2	5.2	100.0
	Total	210	100.0	100.0	

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.519[a]	.270	.213	16.231	2.288

a. Predictors: (Constant), How many managers does the business have?, Family and Friends, No External Finance, Equity, Leasing or Hire Purchase, Business Angels, Grants, Venture Capital, Deb Securities, Trade Credit, Years in business, Microcredit, Financing Schemes, Bank Overdraft, Bank Loan

b. Dependent Variable: How will you categorize your firms growth over 3 yrs

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18882.704	15	1258.847	4.778	.000[b]
	Residual	51107.891	194	263.443		
	Total	69990.595	209			

a. Dependent Variable: How will you categorize your firms growth over 3 yrs

b. Predictors: (Constant), How many managers does the business have?, Family and Friends, No External Finance, Equity, Leasing or Hire Purchase, Business Angels, Grants, Venture Capital, Deb Securities, Trade Credit, Years in business, Microcredit, Financing Schemes, Bank Overdraft, Bank Loan