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INVESTMENT READINESS, ACCESS TO EXTERNAL FINANCE AND PERFORMANCE OF SMALL AND MEDIUM-SCALE ENTERPRISES IN THE ACCRA METROPOLIS, GHANA

BY

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Thesis submitted to the Institute for Development Studies of the College of Humanities and Legal Studies, University of Cape Coast, in partial fulfilment of the requirements for the award of Doctor of Philosophy Degree in Development Studies

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DECLARATION

Candidate's Declaration

I hereby declare that this thesis is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Name: Edward Nii Amar Amarteifio

Signature: ..... Date: 10/04/2015

Supervisors' Declaration

We hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

Principal Supervisor's Name: Prof. J. V. Mensah

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Co-supervisor's Name: Dr. Henry Fram Akplu

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ABSTRACT

There is growing recognition of the important role Small and Medium-Scale Enterprises (SMEs) play in economic development. SMEs are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. This study set out to examine the investment readiness, access to external finance and performance of SMEs in the Accra Metropolis in Ghana. A mixed method approach employing both quantitative and qualitative research methodology was utilized. Face-to-face interviews using questionnaires were employed to collect data from 500 owner/managers of SMEs in the metropolis. In addition, eight groups of 14 members each were organised for focus group discussions. Structural equation modeling using partial least squares and the Ordinary Least Square were employed to examine the relationships.

The results of the study revealed that access to external finance has a positive and significant effect on the performance of SMEs. Secondly, the investment readiness variables such as owner/manager's age, financial leverage and financial information were found to have positive and significant relationship with access to external finance of SMEs. Also, owner/manager's age, years of experience and financial information were found to have positive and significant relationship with SME performance. The study implies that, in addition to increasing the supply of finance to the SME sector, governments can enhance the ability of SMEs to access the available funds by ensuring they are investment ready. It was recommended that government should support SMEs and also develop programmes to enhance investment readiness amongst SMEs.

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DEDICATION

Dedicated to my wife, Mrs Joyce Maame Esi Amarteifio and daughter, Jocelynne Naa Amerley Amarteifio.

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LIST OF ACRONYMS

AIM	Alternative Investment Market
AIP	Austrian Import Support Programme
AMA	Accra Metropolitan Assembly
AMOS	Analysis of Moment Structures
ANOVA	Analysis of Variance
AVE	Average Variance Extracted
CIDA	Canadian International Development Agency
CPA	Certified Public Accountant
EC	European Commission
EDIF	Export Development and Investment Fund
EEXP	Entrepreneurial Experience
EIS	Enterprise Investment Scheme
ERP	Economic Recovery Programme
EU	European Union
FCPR	Fonds Communs de Placement à Risques
FGD	Focus Group Discussion
FINSAP	Financial Sector Adjustment Programme
FUSMED	Funds for Small and Medium Enterprises Development
GCCI	Ghana National Chamber of Commerce and Industry
GDP	Gross Domestic Product
GEDC	Ghana Enterprise Development Commission
GEXP	General Experience
GoG	Government of Ghana
GLSS	Ghana Living Standard Survey
GPRSII	Growth and Poverty Reduction Strategy II

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GRATIS	Ghana Regional Appropriate Technology Industrial Service
GSE	Ghana Stock Exchange
GSS	Ghana Statistical Service
GTZ	German Agency for Technical Cooperation
IEXP	Industry Experience
ISA	International Standards on Auditing
ITTUs	Intermediate Technology Transfer Units
KPMG	Klynveld Peat Marwick Goerdeler
LISREL	Linear Structural Relations
MANOVA	Multivariate Analysis of Variance
MASLOC	Microfinance and Small Loan Centre
MSMEs	Micro, Small and Medium Enterprises
NBSSI	National Board for Small-Scale Industries
NDPC	National Development Planning Commission
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Square
PAMSCAD	Programme of Action to Mitigate the Social Costs of Adjustment
PLS	Partial Least Square
PSI	Presidential Special Initiative
R & D	Research and Development
ROE	Return on Equity
SAP	Structural Adjustment Programme
SEM	Structural Equation Model
SICAR	Société d'investissement en capital à risque
SMEs	Small and Medium-scale Enterprises

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SPER	Support for Public Expenditure Reforms
SPSS	Statistical Product and Service Solutions
UNIDO	United Nations Industrial Development Organisation
VCT	Venture Capital Trusts

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CHAPTER ONE

INTRODUCTION

Background to the study

The quest for the promotion of Small and Medium-Scale Enterprises (SMEs), and the rise of political-economy concerns over the lack of industrialisation in developing countries dates back to the mid-twentieth century. For much of the period, however, industrialisation policies were premised on the segmentation between large and small-scale producers. Macroeconomic and sector policies were designed accordingly (Erikson & Sorheim, 2005).

Broadly speaking, the overall policy framework was to promote large enterprises, often leaving small business producers at a disadvantage. Monetary, foreign exchange and industrial strategies were formulated to support the specialisation of larger firms in capital-intensive production, feeding the higher end of the market, and small-scale producers were left to produce inferior goods, commonly catering for the lower end of the market, and using labour-intensive means of production. India's industrialisation strategy with its successive multi-year plans, exemplifies this paradigm. There were of course variations on this theme from country to country (Cocca & Alberti, 2010).

Supporting the creation and growth of innovative small and medium-size enterprises (SMEs) is a high priority for Europe, as they are the main drivers for innovation, economic growth and job creation. At the supply side, although equity funds raised have recently increased, reaching all-time records in 2005, funds actually invested in SMEs remain proportionally low,

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especially in the early stages. European investors are reluctant to invest in SMEs because of the high risk and overhead costs induced which are not compensated by realised returns. Europe has too few business angels, just as it has too few private venture capital funds that are willing to invest in seed and start-up stages. On the demand side, many entrepreneurs have a limited understanding of the various financing options and they often perceive the loss of control of their company as unacceptable (Shane, 2009).

In the European Union, SMEs account for 99.8 percent of all companies, 67.1 percent of all private sector jobs, and more than 80 percent of employment in some industrial sectors. In 2000, the EU adopted the Charter on SMEs, as a policy document, which aimed to further promote the development of small businesses; subsequently, in 2008 the EU adopted the Small Business Act for Europe. These small businesses are increasingly seen as playing an important role in the economies of many countries. Hence governments throughout the world focus on the development of the SME sector to promote economic growth. The dynamic role of these SMEs in developing countries as engines through which growth objectives of developing countries can be achieved has long been recognized (European Commission, 2011).

It is estimated that SMEs employ 22 percent of the adult population in developing countries (Daniels & Fisseha, 1992; Daniels & Ngwira, 1993; Fisseha, 1991; Fisseha & McPherson, 1991; Gallagher & Robson, 1995). This sector employs about 15.5 percent of the labour force in Ghana (Parker et al, 1995), and has experienced higher employment growth than micro and large-scale businesses. SMEs output, as a percentage of Gross Domestic Product

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(GDP) was 6 percent of GDP in 1998 (Aryeetey et al, 1994). The role of SMEs in the overall health of the country's economy is, however, dependent on their performance in terms of growth and profitability (Panpiamrat, 2005).

The Ghanaian economy can be said to be one of the most fertile economies in the West African Sub-region. Ghana has maintained a peaceful atmosphere since the country entered into constitutional rule in 1992. In the 1970's and 80's, political instability stifled the business climate and drove many local and foreign businesses away from the country (Dovi, 2006). Since 1992, governments have successfully handed over power to other governments without any instability hence making investors to gain enough confidence without any interruption to their businesses. This has accounted for an increase in the number of SMEs but the contribution of these SMEs to the economic development of Ghana is still very low. On average, 90 percent of registered enterprises are small (Bani, 2003).

As the SME sector is the backbone of the country's economy, intervention by the government to address SMEs ability to access finance has been extensively developed, and has focused on supply-side factors (aimed at increasing the availability of funds to the SME sector and this has accounted for the high numbers of financial institutions in the country). Financial capital is available in the financial market in a variety of forms and from a range of sources (Ghana Stock Exchange, 2008). Addressing only the supply-side factors (supply of funds to SMEs) by increasing finance available to SMEs cannot solve the financial problems of SMEs (Sarapaivanich & Kotey, 2006; Sevilla & Soonthornthada, 2000).

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Direct intervention through increased supply of funds to the SME sector may distort the workings of the market and encourage inefficiency and poor performance in the sector. Research has shown that demand-side factors may be a more powerful constraint on SME ability to access finance than supply-side factors (Kotey, 1999; Mason & Harrison, 2001; Sarapaivanich & Kotey, 2006). Demand-side factors suggest that access to finance continues to be a major constraint for SMEs because they are not investment-ready (Harding & Cowling, 2006; Holmes & Kent, 2003).

According to the European Commission (2005), when looking at the financing of innovative SMEs, the supply of funds has been the main focus. Considerable work has been carried out to improve the supply of funds for investment in SMEs. Investors who seek to obtain a profit on their investment and unless they are convinced that an SME can grow and become profitable, they will not make a commitment. To ensure an effective market in the supply of finance for SMEs, it is therefore necessary to develop the demand side to help SMEs attract investors. In other words, SMEs should become "investment ready".

Theoretical insight into the study of investment readiness has revealed that it is a set of processes deliberately carried out to make ventures acceptable as prospects for equity investors (European Business Angel Network, 2007). According to the European Commission (2002), investment readiness can be defined "as the entrepreneur's understanding of and responding to the investor's concerns which can be improved through increasing the investment readiness of entrepreneurs." These processes are primarily oriented toward packaging information in a clear and concise manner. They include business

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planning; business modelling; market connection; establishment of management practices; and use of informal networks to establish academic secondments, specialist equipment, and consultancy services to improve the prospects of a venture (Feeney, Haines, & Riding, 1999; Wright, Lockett, Clarysse, & Binks, 2006).

Inadequate human resources, such as managerial and technical skills, in-house Research and Development (R&D), and connection with financial resources are cited as typical comparative disadvantages for SMEs. Because the process of screening and monitoring new ventures relies on network-based, personalized, tacit, and informal knowledge, the communication process becomes important in overcoming information asymmetry (Christensen, 2007b). Investment readiness, business angel academies, and business angel networks are all network-based policy solutions devised to cope with the information asymmetry problem (Aernoudt, 2004). Investment readiness as policy is a relatively recent phenomenon in business angel policymaking (Mason & Harrison, 2001, 2004).

One of the main objectives of investment readiness policies is to improve the knowledge within ventures as to how financiers act when investing in SMEs. An Australian study confirmed that investment readiness enables the business-investor community to avoid wasting resources on flawed business ventures (Douglas & Shepherd, 2002). According to Mill Consultancy (2006), investment readiness is the ability to provide sufficient information, credibility and trust to financial providers to motivate them to invest money in the business. Investment readiness is also defined as the capacity of an SME or entrepreneur – who is looking for external finance, in

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particular equity finance – to understand the specific needs of an investor and to be able to respond to these needs by providing an appropriate structure and relevant information, by being credible and by creating confidence (European Commission, 2006).

Investment readiness comprises owner/manager readiness, business readiness and information readiness. Thus, Mason and Harrison (2001) suggested that in order to help SMEs take advantage of the pool of available capital, the government has to attend to the demand-side factors by helping them to become investment-ready (HM Treasury, 2001). Investment readiness, however, does not only influence access to finance but also affects SME performance. Improved investment readiness can stimulate the demand side by making SMEs more attractive for investors. Owner/manager readiness, business readiness and information readiness in turn enhance the potential for success of SMEs. Increasing the ability of the SMEs to access finance through investment readiness also enables these enterprises to undertake more ambitious projects, expand their businesses, and have larger financial buffers against managerial mistakes and market downturn.

The first concerns most SMEs is the entrepreneur's attitude towards equity finance. Consistent with the pecking order hypothesis (Myers, 1984), there is a high level of equity aversion amongst SMEs (Hutchinson, 1995; Oakey, 2007; Howorth, 2001), with most business owners with aspirations to grow their businesses reluctant to surrender ownership and control. This attitude is reflected in the vocabulary of business owners who often refer to the process of raising equity finance as requiring them to "give away" part of their business. Equity aversion, in turn, may be related to the entrepreneur's

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lack of information about the characteristics and availability of alternative sources of finance (Van Auken, 2001).

The pecking order theory states that entrepreneurs tend to choose the form of financing that enables them to retain control-i.e., bank loans are preferred to private equity (Berggren, Olofsson & Silver, 2000; Howorth, 2001; Myers, 1984). The origin of this theory is the notion of control aversion, which is the perception that one is losing control to external actors. The pecking order theory has since been modified somewhat as private equity does not require collateral to the same extent as bank capital (Cressy & Olofsson, 1997; Lindstrom & Olofsson, 2001; Saetre, 2003). Nevertheless, the theory has been validated in numerous studies over the years.

Despite the many studies arguing that private equity provides the greatest benefits for SMEs in terms of financiers (Bygrave et al., 2003; Mason & Harrison, 2000a, 2000b; Reynolds et al., 2002), the pecking order theory appears to explain major determining factors in entrepreneurial behaviour. The consequence is that many potentially investable projects do not come forward as potential recipients for venture capital. It is argued that with a better understanding of the role of different sources of finance in business development more entrepreneurs would consider seeking equity finance. Thus, this study seeks to examine the relationships among investment readiness of operators of SMEs, access to finance and firm's performance.

Statement of the problem

The importance of SMEs in the process of transition from a centrally planned to a market economy is now widely recognized in the literature. It lies

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in its quick adjustment to the needs of the market. With the demise of the central planning system, SMEs have become the major driving force for the development of the economy in many transition countries. In Czech Republic, for example, manufacturing firms with fewer than 25 employees were almost non-existent in 1989 (0.8 percent of all firms accounting for 0.01percent of total manufacturing output).

By 1995, such firms constituted 89.9 percent of all manufacturing firms accounting for 10.6 percent of the total manufacturing output (Pissarides, Singer & Svejnar, 2000). As noted by Pissarides (1999), SMEs are the most dynamic firms and they are the most likely to take any available niche where a comparative advantage exists, however constrained they are by economic, institutional and legal factors. These obstacles vary from one that are linked to production, like limited access to capital and credits, to those that shape the overall business environment like excessive regulation, weak contract enforcement and inadequate infrastructure.

Despite government efforts to make these firms viable and help them contribute to economic development, most SMEs do not perform as expected because they lack access to finance or are not investment ready. Funds are a major problem faced by SMEs (Liedolm & Mead, 1987; Liedolm, 1990; Schmitz, 1995; Steel & Webster, 1990). There are a number of formal, semi formal and informal support institutions established to provide financial support to SMEs, yet a number of surveys (Aryeetey et al, 1994; Bank of Ghana, 2009; Mensah, 2004; Parker et al, 1995; Poku & Frimpong, 2009), still indicate that access to finance continue to pose as challenge to SMEs' operations in the country. The question that remains unanswered is, with about

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27 banks, 134 rural banks and more than 500 microfinance institutions (Register of Licensed Banks in Ghana as at June, 2009), why is easy access to finance still a threat to SMEs' growth and survival?

Theoretical insights into the relationships among performance, investment readiness and access to external finance have largely been confined to studies undertaken in developed countries such as the United States of America and the United Kingdom (Cook, 2001). In developing countries and especially Ghana, research on these relationships is scanty or even non-existent. Previous studies have mainly focused at the supply side factors or how SMEs could access external finance. Despite the wide-ranging economic reforms instituted in Ghana, SMEs are still faced with these problems (World Bank, 1993; Parker et al, 1995). One will expect that with the inception of the NBSSI, Presidential Special Initiative (PSI) and the Business Advisory Centre and other agencies like the United Nations Industrial Development Organisation (UNIDO), the financial problems of SMEs would be reduced but the same problems persist.

There does not appear to be any academic study that has examined the direct and indirect relationships among performance, access to finance and investment readiness of SMEs in Ghana. There are also differences with respect to level of economic development, social and cultural factors. Thus, it is essential to clarify whether Western findings are generally applicable in other economic environments, specifically in the Ghanaian economic environment, in developing appropriate policies and programmes to deal with the problem of accessing finance.

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This study therefore examines the relationship between investment readiness, access to external finance and performance of SMEs in an attempt to provide empirical evidence that might fill the gap in this area and to recommend policies relevant to addressing these issues at both micro and macro levels.

Objectives of the study

The main objective of this study is to examine the investment readiness, access to external finance, and performance of SMEs in the Accra Metropolis.

The specific objectives are to:

1. Describe the characteristics of SMEs in the Accra Metropolis.
2. Assess investment readiness of SMEs in the Accra Metropolis.
3. Determine the relationship between investment readiness and access to finance of SMEs in the Accra Metropolis.
4. Examine the effects of investment readiness of SMEs on their performance.
5. Determine the relationship that exists between access to finance and performance of SMEs in the Accra Metropolis.
6. Make recommendations based on the findings of the study.

Research questions

The study is guided by the following research questions:

1. What are the characteristics of SMEs in the Accra Metropolis?
2. How are SMEs in the Accra Metropolis investment ready?

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3. What is the relationship between investment readiness and access to external finance of SMEs in the Accra Metropolis?
4. What relationship exists between investment readiness and performance of SMEs in the Accra Metropolis?
5. What relationship exists between access to external finance and performance of SMEs in the Accra Metropolis?
6. What recommendations can be made based on the findings?

Research hypotheses

In order to address these objectives and research questions, the following research hypotheses were formulated for objectives two, three and four.

H_1: There is a positive relationship between SME's investment readiness and access to finance.

H_2: SMEs that are investment ready perform better than those that are not investment ready.

H_3: SMEs that have access to finance perform better than those without access to finance.

Significance of the study

The role of the private sector, in particular small business, to economic development and growth of Ghana has increased in importance because macro-economic policies involving public sector initiatives have generally failed to reserve or reduce the spread of poverty (World Bank, 1993). This failure has prompted most international development agencies to redirect some of their attention to the micro level (at individual, group and small businesses).

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This section outlines the importance of this research on theoretical and practical grounds, and the potential application of the research to small business management and development in Ghana.

The problems associated with access to finance have significantly hindered the role SMEs play in the overall performance of the country's economy (Satetawanich, 2005; Worachattarn & Shuntharinka, 2001). Demand-side factors suggest that the whole external funding process is more efficient if the recipients of funding (SMEs) are better prepared (Hallberg, 2000). Such preparedness, backed by investment readiness, enhances a company's ability to access finance and performance, and ultimately boosts national economies by encouraging the survival of the most efficient firms. The relationships among performance, access to finance and its investment readiness have, however, received limited attention in developing countries and no attention in the Ghanaian context. Therefore, a study of these relationships would contribute to knowledge of the linkages among performance, access to finance and investment readiness specifically in Ghana.

The results of the study will thus have valuable implications for economic development, policy formulation, and programme development in the SME sector in Ghana. The findings would be of interest to policy makers and researchers as there exist to be no or little information on SME's investment-readiness, access to finance and performance. This presents a problem for understanding the relationship that exists between these variables. The research would therefore add to the existing body of knowledge by looking at the influence of investment readiness on access to finance, which

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should lead to SMEs performance. Since SMEs also feature prominently in Ghana, thus a deeper understanding of how these enterprises evolved and grew will make it possible to generate a national industrial plan for SMEs. Furthermore, the outcome will help contribute to academic discussions on the investment readiness of SMEs.

Organisation of the study

This study was organised in eight chapters. Chapter One was the introduction, which focused on the background of the study, statement of the problem, research objectives, research questions, research hypothesis and significance of the study. The next chapter dealt with small and medium enterprise in Ghana. This chapter provided an overview of SMEs in Ghana, definition of SMEs, the role and importance of SMEs to the Ghanaian economy, contribution of SMEs towards economic development in Ghana, current status of SMEs financing in Ghana and policies of the Ghanaian government relating to SMEs.

Chapter Three focused on access to finance and SME performance, specific issued discussed were on concepts related to sources of finance for SMEs, financial structure and theories on financing SMEs. Chapter Four was on investment readiness and access to finance. It covered literature related to the factors influencing access to finance of which the supply-side factors and demand-side factors of SME finance were discussed. It also reviewed literature on the three dimensions of investment readiness and how they impact on access to finance.

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Chapter Five described the study area, study population, sample size and sampling procedure. The data collection procedure and data analysis techniques were also discussed. Chapters Six and Seven covered the findings from analysis of the data gathered. The final chapter focused on the summary, conclusions, recommendations and contribution to knowledge. It also covers the areas for future research.

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CHAPTER TWO

SMALL AND MEDIUM-SCALE ENTERPRISES IN GHANA

Introduction

There is growing recognition of the important role SMEs play in economic development. SMEs are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines (OECD, 2005). Even in the developed economies, it is the SME sector rather than the multinationals that employ the largest number of workers (Mullineux, 1997). Interest in the role of SMEs in the development process continues to be in the forefront of policy debates in most countries. This chapter reviewed the role of SMEs in the Ghanaian economy. Issues reviewed included the definitions of SMEs, an overview and role of SMEs in Ghana, constraints to SME development, and financing of SMEs.

Definition of Small and Medium-scale Enterprises

SMEs have had a privileged treatment in development literature, particularly over the last two decades. Hardly any arguments are put forward against SMEs, even if development policies do not necessarily favour them and economic programmes, voluntarily or not, often continue to result in large capital investment. Arguments for SMEs come from almost all corners of development literature, and economic programmes, particularly in the developed countries, tend to emphasise the role of SMEs, even if practical results differ from the rhetoric. Therefore, SMEs seem to be an accepted wisdom within the development debate (Castel-Branco, 2003).

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The issue of what constitutes a small or medium-scale enterprise is a matter of contention in literature. Different authors have usually given different definitions to this category of business. SMEs have not been spared with the definition problem that is usually associated with concepts, which have many components. The definition of firms by size varies among researchers. Some attempt to use the capital assets while others use skill of labour and turnover level. Others define SMEs in terms of their legal status and method of production. Storey (1994) tries to sum up the danger of using size to define the status of a firm by stating that in some sectors all firms may be regarded as small, whilst in other sectors there are possibly no firms, which are small.

The Bolton Committee (1971) first formulated an "economic" and "statistical" definition of a small firm. Under the "economic" definition, a firm is said to be small if it meets the following three criteria:

1. It has a relatively small share of their market place;
2. It is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure;
3. It is independent, in the sense of not forming part of a large enterprise.

Under the "statistical" definition, the Committee proposed the following criteria:

a. The size of the small firm sector and its contribution to GDP, employment, exports, etc.;
b. The extent to which the small firm sector's economic contribution has changed over time;

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c. Applying the statistical definition in a cross-country comparison of the small firms' economic contribution.

The Bolton Committee applied different definitions of the small firm to different sectors. Whereas firms in manufacturing, construction and mining were defined in terms of number of employees (in which case, 200 or less qualified the firm to be a small firm), those in the retail, services, wholesale, etc. were defined in terms of monetary turnover (in which case the range is 50,000-200,000 British Pounds to be classified as small firm). Firms in the road transport industry are classified as small if they have 5 or fewer vehicles. There have been criticisms of the Bolton definitions. These centre mainly on the apparent inconsistencies between defining characteristics based on number of employees and those based on managerial approach.

The definition of the European Commission (2005) takes into consideration three different indicators; staff headcounts, annual sales and assets. Though it is mandatory to abide by the staff head counts' threshold, however, an SME qualifies by falling under either the sales or the assets ceilings. This definition was introduced to ensure that eligible enterprises engaging in different types of economic activities do not lose their status as SMEs. This definition allows enterprises to be treated fairly, as enterprises in the manufacturing industry for example, have lower sales figures than those operating in the trade and distribution industries. According to the EC, SMEs are those enterprises that employ fewer than 250 people and have annual sales not exceeding $67 million and/or total assets not exceeding $56 million.

Small enterprises are defined as those enterprises employing less than 50 persons and with annual sales or total assets that do not exceed $13 million.

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Meanwhile, micro enterprises are defined as those, which employ fewer than 10 persons and with annual sales or total assets that do not exceed $3 million. This definition replaced a previous one that was introduced back in 1996; the previous definition had the same staff headcount but a significantly lower financial threshold. The increase in financial thresholds was attributed to the positive economic developments in prices and productivity in the EU member states over the last decade.

However, the EC definition is too all embracing to be applied to a number of countries. Researchers would have to use definitions for small firms, which are more appropriate to their particular "target" group (an operational definition). It must be emphasized that debates on definitions turn out to be sterile, unless size is a factor, which influences performance. For instance, the relationship between size and performance matters when assessing the impact of a credit programme on a target group (Storey, 1994). Weston and Copeland (1998) hold that definitions of size of enterprises suffer from a lack of universal applicability. In their view, this is because enterprises may be conceived of in varying terms. Size has been defined in different contexts, in terms of the number of employees, annual turnover, industry of enterprise, ownership of enterprise, and value of fixed assets. Jordan et al (1998) define SMEs as firms with fewer than 100 employees and less than €15 million turnover.

Michaelas et al (1999) consider small independent private limited companies with fewer than 200 employees and López and Aybar (2000) considered companies with sales below €15 million as small. According to the British Department of Trade and Industry, the best description of a small firm

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remains that used by the Bolton Committee in its 1971 Report on Small Firms. This stated that a small firm is an independent business, managed by its owner or part owner and having a small market share.

The Ghanaian definition of Small and Medium-scale Enterprises

There have been various definitions given for SMEs in Ghana but the most commonly used criterion is the number of employees of the enterprise. In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. In its Industrial Statistics, the Ghana Statistical Service (2005) considers firms with fewer than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as small and medium-scale enterprises. Ironically, the GSS (2005) in its national accounts considered companies with up to 9 employees as SMEs. The value of fixed assets in the firm has also been used as an alternative criterion for defining SMEs (Kayanula & Quartey, 2000).

However, the National Board for Small Scale Industries (1990) applies both the "fixed asset and number of employees" criteria. It defines a Small-Scale Enterprise as a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Ghanaian cedis (US$ 9506, using 1994 exchange rate). The Ghana Enterprise Development Commission, on the other hand, uses a 10 million Ghanaian cedis upper limit definition for plant and machinery. It is important to caution that the process of valuing fixed assets poses a problem. Secondly, the continuous depreciation of the local currency as against major trading currencies often makes such definitions outdated (Kayanula & Quartey, 2000).

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In defining SMEs in Ghana, Steel and Webster (1991), and Osei et al (1993) used an employment cut-off point of 30 employees. Osei et al (1993), however, classified Small-Scale Enterprises into three categories. These are: (i) micro - employing less than 6 people; (ii) very small - employing 6-9 people; (iii) small - between 10 and 29 employees. A more recent definition is the one given by the Regional Project on Enterprise Development Ghana manufacturing survey paper, the survey report classified firms into: (i) micro enterprise, less than 5 employees; (ii) small enterprise, 5 - 29 employees; (iii) medium enterprise, 30 – 99 employees; (iv) large enterprise, 100 and more employees (Teal, 2002).

All the definitions of SMEs vary significantly, usually in line with the scale of the economy concerned, its degree of development and the economic structures that are present. Several studies defined SMEs according to the number of workers employed, or according to the scale of operations of the firm. Taking the number of workers as the point of reference, definitions of SMEs vary between a few and few hundred workers. The difficulty in defining SMEs within a reasonable range of common indicators raises certain issues. The National Board for Small-Scale Industries, the apex governmental body for the promotion and development of the Micro and Small & Medium Enterprises (MSME) sector in Ghana has attempted to define SMEs as shown in Table 1.

Table 1: Definition of MSME by NBSSI

Enterprise	Number of Employees	Value of Fixed Asset
Small	Between 6 and 29	$10,000
Medium	Between 30 and 99	$100,000

Source: NBSSI (1991)

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Some of these definitions vary according to number of employees, level of investment, total assets and turnover. From the foregoing, it can be discerned that there is no consensus on the issue of definition of SMEs. Given changes in the value of domestic currency as a result of changes in exchange rate, heterogeneity of assets, variations in turnover, using these factors to differentiate scale of operation of enterprises does not seem very appropriate. For these reasons, this study adopts and modifies the definition of SMEs by NBSSI and GSS, which defined SMEs, based on the number of employees and the total assets. The employee principle, which has been considered in this study, is also in line with the definition of Small-Scale Enterprises adopted by the NBSSI.

The idea behind this employee base principle is due to the fact that firms can easily be identified by their number of employees and in part because the process of valuing fixed assets, will pose a problem since mode of accounting system used by one enterprise will vary from one to the other as well as continuous depreciation in the exchange rate often makes such definitions obsolete Therefore, SMEs for this study would be defined as businesses with number of employees between 0 and 100.

Overview of Small and Medium-scale Enterprises in Ghana

The Ghanaian economy can be classified as a transition economy. A transition economy can be characterised by economic restructuring, involving privatisation at both microeconomic and macroeconomic levels, a decentralisation and deregulation of major institutions previously run by the public sector, and support for entrepreneurship and free market competition

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(Asfaw & Jones, 1999; Kalyuzhnova & Taylor, 2001). SMEs in Ghana has played an important role in the transition of the economy from that of state-led to private-oriented development strategies (Akplu, Amoaku-Kwakye, & Boateng, 2002; Aryeetey et al., 1994; Bani, 2003; Osei et al., 1993). It is considered a more reliable vehicle for balanced, equitable and harmonious socio-economic development, and responsible for providing employment to about 65% of the urban force (Aryeetey & Fosu, 2005).

The idea of SME promotion has been in existence since 1970 though very little was done at the time. Key institutions were set up to assist SMEs and prominent among them are the Office of Business Promotion and the present Ghana Enterprise Development Commission (GEDC). The main objective of GEDC was to assist Ghanaian businessmen to enter into fields where foreigners mainly operated. It also had packages for strengthening small-scale industry in general, both technically and financially (Kayanula & Quartey, 2000).

The Economic Recovery Programme (ERP) instituted in 1983 has broadened the institutional support for SMEs. The National Board for Small Scale Industries (NBSSI) was also established within the Ministry of Industry, Science and Technology to address the needs of small businesses. The NBSSI established an Entrepreneurial Development Programme, intended to train and assist persons with entrepreneurial abilities into self-employment. In 1987, the industrial sector also witnessed the coming into operation of the Ghana Appropriate Technology Industrial Service (GRATIS). It was to supervise the operations of Intermediate Technology Transfer Units (ITTUs) in the country. GRATIS aimed at upgrading small-scale industrial concerns by transferring

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appropriate technology to small scale and informal industries at the grass root level. ITTUs in the regions are intended to develop the engineering abilities of small-scale manufacturing and service industries engaged in vehicle repairs and other related trades. They are also to address the needs of non-engineering industries (Kayanula & Quartey, 2000).

The setting up of the new Ministry for Private Sector Development by the previous government is also an attempt to focus on the development of the SME sector. The most significant institutional weakness facing dynamic SMEs is their lack of access to external finance. Repressive financial policies in the past, especially low interest, and a monopolistic banking system minimized the interest of banks in developing this market. To reverse the consequences of these practices, a combination of financial liberalization and institutional reform was in order (Aryeetey et al., 1994). In view of the relatively low level of response from the private sector to early ERP reform measures the focus was on the liberalization of various sectors, including the financial sector under the Financial Sector Adjustment Programme (FINSAP). Under the FINSAP, direct institutional measures aimed at supporting small enterprises were also put in place.

With World Bank assistance, the Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) created a special fund to assist microenterprises, and the Fund for Small and Medium Enterprises Development (FUSMED) was initiated to increase the amount of credit available to SMEs through commercial and development banks. This was based on the presumption that poor availability of credit from formal sources was one of the major reasons why the private sector investment had not grown

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as expected. A major argument was that small firms with good growth potential were being discriminated against (Aryeetey et al., 1994). At the same time, however, the effectiveness of many similar SME credit was being called in question (Webster, 1991).

There are currently a number of financing schemes set up by government and the donor agencies available to the SME sector, including Private Enterprises and Export Development Fund, Export Development and Investment Fund, German Agency for Technical Cooperation (GTZ), Business Assistance Fund, Ghana Investment Fund, Trade and Investment Programme, Africa Project Development Facility, Support for Private Enterprise Expansion and Development, Promotion of Small and Micro Enterprise Fund, Business Sector Programme Support, Revolving Loan Fund, Ghana Private Sector Development Fund etc. Inspite of these developments, the finance gap continues to be a major problem to SME development in Ghana (Mensah, 2004).

As with most economies, SMEs in Ghana span a wide range of activities both in formal and informal sectors, and comprise businesses in the retail services, wholesale, construction, manufacturing and food processing (Osei et al., 1993). Specifically, typical SMEs include activities such as soap and detergent making, food processing, tailoring, wood processing, furniture manufacturing, electronic assembling, agro processing, and retail and wholesale trade (Dawson, 1993; Osei et al., 1993; Quartey, 2003). However, the state of the Ghanaian economy report for 2005 revealed that in 2004, wholesale and retail trade was the second largest contributor to GDP (6.9 percent) next to government services (10.7 percent) in the overall services

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sector of (29.5 percent) (Institute of Statistical Social and Economic Research, 2005)

SMEs in Ghana are distributed across urban centres and rural areas, although majority are concentrated around a few principal cities and towns. The urban-based SMEs have grown rapidly than the rural based enterprises because of the presence of wage-earning labour force within the confines of their locality. Urban enterprises are further classified into organised and unorganised sectors. The organised businesses normally have paid employees with registered offices, while the unorganised businesses are mainly made up of employees who work in open spaces, at home or in temporary wooden structures, and employ little or in some case no salaried workers. They mostly rely on family members or apprentices (Boeh-Ocansey, 1996). The rural businesses, on the other hand, are largely made up of family groups, individual artisans and women engaged in food production from local crops (Amu, 2005; Kayanula & Quartey, 2000).

Although, Ghanaians own most of these SMEs, few are foreign owned; the majority of these businesses are sole proprietorships with a few partnership and joint ventures (Osei et al., 1993; Quartey, 2003). The owner-manager is either the founder of the business or inherited it from his/her family. In other instances the business is purchased, formed out of a merger or acquired through other means (Quartey, 2003). The amount of capital available to these businesses is small, most often derived from their personal savings or support from friends and relatives. Few SMEs are financed from commercial bank loans, government assistance programmes or other informal sources (Bani, 2003; Osei et al., 1993).

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The role of Small and Medium Enterprises in Ghana

According to Aryeetey et al. (1994), and Boeh-Ocansey (1996), SMEs have played an important role in government initiatives for development, from 1983 Economic Recovery Programme (ERP) through to the Growth and Poverty Reduction Strategy II (GPRSII). Small businesses enable individuals to develop entrepreneurial and managerial skills that needed as a foundation for local investment and sustained industrialization (Bani, 2003). Furthermore, the indigenous technology employed by these businesses is more likely to use local raw materials and equipment, thereby saving foreign exchange, which might otherwise be spent on imports (Aryeetey et al., 1994; Bani, 2003).

Largely resources based, small businesses in Ghana contribute to forward and backward linkages between agriculture and industry on one hand and between different sub-sectors of industry on the other (Boeh-Ocansey, 1996). In addition, they encourage rural-urban linkages in that some of raw materials and finished goods they produce are consumed by the rural and urban sectors and vice versa. In Ghana, small businesses are major sources of employment, income and personal development for the rural and urban poor and due to their labour intensive methods of operation (Bani, 2003; Tsikata, 2001).

It is estimated that about three-quarters of the Ghanaian population derive their livelihood from this sector. Analysis based on the Ghana Living Standards Survey (GLSS, 1999) showed how non-agricultural self employment has given from 19.5per cent of the workforce in 1987/88 to 27.3 per cent in 1998/99, whilst wage employment fell from 17.3 per cent to 13.8 per cent over the corresponding period, mainly through loss of jobs in the

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government and state enterprises as a result of structural adjustment programmes (Tsikata, 2001). Large firms may bring in foreign capital but small businesses are funded initially from dormant capital that would otherwise not be usefully employed (Kayanula & Quartey, 2000; Osei et al., 1993). Besides, they make more efficient use of scarce factors of production than large businesses because small businesses are usually labour intensive, with only small capital investments.

This important feature of small business has led to the conclusion that a viable small enterprise is an economically sound investment since the tendency is for the country to gain more value added per unit of investment than it would from a corresponding investment in large scale enterprises (Osei et al., 1993). Because of their importance in the Ghanaian economy, government policy reforms have gone a long way towards improving the environment for small businesses. Policy reforms such as the liberalization of exchange rates and import licensing provide small businesses with access to import and export markets. In addition, the government has eliminated price controls and eased licensing requirements in order to reduce the obstacles faced by small businesses in these areas (Aryeetey et al., 1994).

Furthermore, a Micro Finance and Loan Centre (MASLOC) has been established to oversee the administration, contribution, and monitoring of small loans and the micro-financing scheme in the country (Republic of Ghana, 2005). In spite of these seemingly impressive policies, it is suggested that SMEs remain vulnerable and inefficient, with high failure rates (Amu, 2005). They face unfavourable factors such as ease of entry, inadequate management skills, unbalanced and inadequate experience, and shortage of

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working capital, government neglect of the sector and numerous government regulations and policies (Bani, 2003).

There is a general consensus that the performance of SMEs is important for both economic and social development of developing countries. From the economic perspective, SMEs provide a number of benefits (Advani, 1997). SMEs have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income. SMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Kayanula & Quartey, 2000).

SMEs are more labour intensive than larger firms and therefore, have lower capital costs associated with job creation (Anheier & Seibel, 1987; Liedholm & Mead, 1987; Schmitz, 1995). They perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, it is argued, small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and

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make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula & Quartey, 2000).

SMEs contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. In Ghana and South Africa, SMEs represent a vast portion of businesses. They represent about 92 percent of Ghanaian businesses and contribute about 70 percent to Ghana's GDP and over 80 percent to employment. SMEs also account for about 91 percent of the formal business entities in South Africa, contributing between 52 percent and 57 percent of GDP and providing about 61 percent of employment (Berry et al., 2002; Gumede, 2000; Ntsika, 1999).

From an economic perspective, however, enterprises are not just suppliers, but also consumers; this plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply-side (through the potential for new production arising from upgraded equipment). In addition, demand is important to the income-generation potential of SMEs and their ability to stimulate the demand for both consumer and capital goods (Berry et al., 2002).

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Operating environment of Small and Medium Enterprises in Ghana

The need to support SMEs is justified by the nature of the environment within which they operate. A large proportion of SMEs cannot mobilize the required resources to exploit market opportunities on their own because of their size, resource constraints and nature of operations. Lack of professional expertise compounded by low levels of awareness of their operating environment makes them vulnerable to 'environmental shocks' (Bani, 2003; Osei et al., 1993). The economic environment within which SMEs operate in Ghana is fraught with uncertainties, characterized by high inflationary rates and inefficient fiscal and monetary policies, all of which adversely affect the activities of SMEs (Institute Of Statistical Social and Economic Research, 2005).

The deregulation of the financial sector during the implementation of the SAP was expected to result in a reallocation of domestic credits towards small firms and the substitution of more expensive forms of credit for cheaper ones (Boeh-Ocansey, 1996). Despite these reforms, the absence of a vibrant banking sector that guarantees access to institutional credit continues to be a major constraint to small enterprise development (Bani, 2003; Cook & Nixson 2000; Ghana News Agency, 2006). In addition, repressive financial policies in the past, especially low interest rates for saving, high interest rates for borrowing, and a monopolistic banking system have minimized the interest of banks in the small firms sector (Aryeetey et al., 1994; Bani, 2003). For example, regardless of the numerous complaints from businesses on the need to encourage borrowing by lowering interest rates on loans, commercial bank lending rates continue to be high, ranging from between 19 percent to 25

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percent (Vande-Pallen, 2006). At such high rates and faced with the often cumbersome rules and regulations associated with obtaining bank loan, SMEs are reluctant to borrow from the banks.

For most owner managers, capital is sourced from mainly informal sources despite the fact that these carry with them their own risk and liabilities. The end result is often that businesses are not able to access the funds needed for expansion. Ghana's economic reforms were accompanied by rehabilitation of its infrastructure, including the building or repair of trunk and feeder roads, rail lines, electricity, water and telecommunications all of which are vital to creating an enabling environment for private sector activity (Aryeetey et al., 1994; Kayanula & Quartey, 2000). Even so most small businesses still complain of poor infrastructure development, which results in high transportation costs and delays in delivery of supplies (Bani, 2003; Boeh-Ocansy, 1996; Ghana News Agency, 2006).

Another major environmental factor affecting small firms is increased competition from imported products, a result of the government's trade liberalization policies (Saffu & Manu, 2004). As Ghanaians prefer imported goods to home made goods, this increased availability of imported products has reduced demands for goods made in Ghana. Small firms need timely and adequate information on market indicators to compete effectively. However, in Ghana they generally have inadequate access to the relevant information, business services and the training needed to solve problems and increase productivity (Akplu et al, 2002; Aryeetey et al., 1994; Bani, 2003). The regulatory environment is also cumbersome for small businesses. It takes a

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long time to register a business as the regulatory requirements are numerous (Akplu et al, 2002; Kayanula & Quartey, 2000).

Many small business owners abandon the idea of registration. While others are not even aware of the regulatory requirements, in some cases small business owners are required to apply to as many as twenty organisations for permits before they can start their business (Osei et al., 1993). It is also difficult to register with the Registrar General's department if the business is located outside the country's capital as the department does not provide services outside the capital city (Bani, 2003). Prospective owner-managers have to travel to the capital city and stay for a number of days to register their business. Whereas this requirement could be fulfilled by medium and large scale enterprises who have the resources to comply, it is sometimes an insurmountable burden for some small businesses (Akplu et al, 2002).

In addition, laws governing the enforcement of contracts are inadequate. The legal system in Ghana, which is supposed to empower corporate forms and industry associations in fulfilling their roles, is poorly developed and unable to adequately enforce compliance with contractual obligations (Kayanula & Quartey, 2000). Another factor that affects small business activities in Ghana is the unpredictability of political environment, particularly in the area of legislature reforms. New legislation takes immediate or retrospective effect or, even under the democratic dispensation bills are rushed through parliament under certificates of urgency. Failure to create a stable and conducive political environment undermines the performance of small firms and also erodes investor confidence in the private sector as a whole (Boeh-Ocansey, 1996; Kayanula & Quartey, 2003)

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Constraints to Small and Medium Enterprise development in Ghana

Despite the potential role of SMEs to accelerated growth and job creation in developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors, including finance, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets (Anheier & Seigel, 1987; Steel & Webster, 1991; Aryeetey et al, 1994; Gockel & Akoena, 2002). The lack of managerial know-how places significant constraints on SME development. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on SMEs.

The lack of support services or their relatively higher unit cost can hamper SMEs' efforts to improve their management, because consulting firms are often not equipped with appropriate cost-effective management solutions for SMEs. Besides, despite the numerous institutions providing training and advisory services, there is still a skills gap in the SME sector as a whole (Kayanula & Quartey, 2000). This is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. In terms of technology, SMEs often have difficulties in gaining access to appropriate technologies and information on available techniques (Aryeetey et al., 1994). In most cases, SMEs utilize foreign technology with a scarce percentage of shared ownership or leasing. They usually acquire foreign licenses, because local patents are difficult to obtain.

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Regulatory constraints also pose serious challenges to SME development and although wide-ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm level. The high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims, and excessive delays in court proceedings adversely affect SME operations. In the case of Ghana, the cumbersome procedure for registering and commencing business are key issues often cited. The World Bank (2006) indicated that it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. It takes longer (176 days) in South Africa and there were 18 procedures involved in dealing with licensing issues.

Meanwhile, the absence of antitrust legislation favours larger firms, while the lack of protection for property rights limits SMEs' access to foreign technologies (Kayanula & Quartey, 2000). Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. However, their limited international marketing experience, poor quality control and product standardisation, and little access to international partners, continue to impede SMEs' expansion into international markets (Aryeetey et al., 1994). They also lack the necessary information about foreign markets. One important problem that SMEs often face is access to capital (Lader, 1996). Lack of adequate financial resources places significant constraints on SME development.

Cook and Nixson (2000) observe that, notwithstanding the recognition of the role of SMEs in the development process in many developing countries,

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SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. A World Bank study found that about 90 percent of small enterprises surveyed stated that credit was a major constraint to new investment (Parker et al., 1995). Levy (1993) also found that there is limited access to financial resources available to smaller enterprises compared to larger organisations and the consequences for their growth and development. The role of finance has been viewed as a critical element for the development of SMEs (Cook & Nixson, 2000).

A large portion of the SME sector does not have access to adequate and appropriate forms of credit and equity, or indeed to financial services more generally (Parker et al., 1995). In competing for the corporate market, formal financial institutions have structured their products to serve the needs of large corporate organisation. A cursory analysis of survey and research results of SMEs in South Africa, for instance, reveals common reactions from SME owners interviewed. When asked what they perceive as constraints in their businesses and especially in establishing or expanding their businesses, they answered that access to funds is a major constraint. This is reflected in perception questions answered by SME owners in many surveys (Graham & Quattara, 1996; Rwingema & Karungu, 1999).

This situation is not different in the case of Ghana (Abor & Biekpe 2005, 2006; Aryeetey, 1998; Bigsten et al., 2000; Quartey, 2002; Sowa et al., 1992). A priori, it might seem surprising that finance should be so important. Requirements such as identifying a product and a market, acquiring any necessary property rights or licenses, and keeping proper records are all in

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some sense more fundamental to running a small enterprise than is finance (Green et al., 2002). Some studies have consequently shown that a large number of small businesses fail because of non-financial reasons. Other constraints SMEs face include: lack of access to appropriate technology; the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity and lack of management skills and training (Aryeetey et al., 1994; Kayanula & Quartey, 2000; Parker et al., 1995; Sowa et al., 1992).

However, potential providers of finance, whether formal or informal, are unlikely to commit funds to a business, which they view as not being on a sound footing, irrespective of the exact nature of the unsoundness. Inadequate funds may be the immediate reason for a business failing to start or to progress, even when the more fundamental reason lies elsewhere. Finance is said to be the "glue" that holds together all the diverse aspects involved in small business start-up and development (Green et al., 2002).

Status of Small and Medium-scale Enterprise financing in Ghana

According to Mensah (2004), there are many who believe that the single most important factor constraining the growth of the SME sector is the lack of finance. There are many factors that can be adduced for this inadequate finance:

1. A relatively undeveloped financial sector with low levels of intermediation;
2. Inadequate institutional and legal structures that facilitate the management of SME lending risk; and

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3. High cost of borrowing and rigidities of interest rates.

Due to the persistent financing gap, governments and development partners to stimulate the flow of financing to SMEs over and above what is available from existing private sector financial institutions have launched many interventions. Existing SME financing interventions can be classified under official schemes and financing provided by financial institutions.

Official SME credit schemes

Official schemes were introduced by government, either alone, or with the support of donor agencies to increase the flow of financing to SMEs. Government has in the past attempted to implement a number of such direct lending schemes to SMEs either out of government funds or with funds contracted from donor agencies. The Aid and Debt Management Unit of the Ministry of Finance and Economic Planning usually managed these funds. Most of the on-lent facilities were obtained under specific programmes with bilateral organizations in support of the Government of Ghana's Economic Recovery Programme and Structural Adjustment Programme. Examples of such schemes are:

1. Austrian Import Programme (1990);
2. Japanese Non-Project Grants (1987-2000); and
3. Canadian Structural Adjustment Fund and Support for Public Expenditure Reforms (SPER).

In all cases, the funds were designed to assist importers. For example, under the Austrian Import Support Programme (AIP), the beneficiaries were to use the facility to procure equipment, machinery, raw materials and related

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services from Austria. The Export Finance Company, a quasi-public institution was made the sole administrator of the facility. The Japanese and Canadian facilities were similarly designed to support imports from the respective countries. While these schemes were not specifically targeted to SMEs, there were no restrictions with respect to minimum company size and many companies that would fit the SME definition were beneficiaries (Bani, 2003; Mensah, 2004).

The results of the direct lending schemes operated by government have been mixed. For example, under AIP, 20 companies of varying sizes benefited from the scheme. Beneficiaries were given six years made up of a one-year moratorium and a five-year repayment period (Mensah, 2004). Since the loans were disbursed in 1990, the borrowers should have completely liquidated their loans by the end of 1996. However, as at December 2001, only 1 out of 20 beneficiaries had fully paid. The results for the Japanese and CIDA schemes were much more encouraging from a recovery perspective because repayments were guaranteed by various financial institutions, although the government has had to hire 18 debt collectors to recover outstanding indebtedness under both schemes.

In addition to donor-supported schemes for direct lending, government has attempted at various times to operate lending schemes for SMEs. The schemes have included the following:

1. Business Assistance Fund: The Business Assistance Fund was operated in the 1990s to provide direct government lending to the SME sector. The programme was widely seen to have been abused

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politically, with most of the loans going to perceived government supporters.

2. Ghana Investment Fund: In 2002, the Ghana Investment Fund Act (Act 616) was passed to establish a fund to provide for the grant of credit facilities by designated financial institutions to companies. However, the scheme was never implemented.
3. Export Development and Investment Fund (EDIF): Under this scheme, companies with export programmes can borrow up to $500,000 over a five-year period at a subsidized cedi interest rate of 15%. While the scheme is administered through banks, the EDIF board maintains tight control, approving all the credit recommendations of the participating banks.

Guarantee facilities

Section 13 of the Loans Act of 1970 (Act 335) empowers the Government of Ghana (GoG) to provide government guarantee to any external financiers who wish to advance funds to any Ghanaian organisation and the terms of such facility require the provision of guarantee from the government. Guarantee facilities are contingent liabilities of the government. The onus for repaying the facility lies with the borrower and not the government. The facility crystallizes and becomes liability due from GoG if the borrower is unable to honour his/her loan obligation and the government is called upon to settle the facility as a guarantor. In that case the borrower is required to subsequently reimburse the government for the amount involved.

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Although GoG in exercise of the relevant provisions in the Loans Act, has provided guarantees to a number of bilateral and multilateral organizations in the past on behalf of selected Ghanaian organizations in both the private and public sectors of the economy, no targeted SME guarantee facilities has been introduced. A Loan Guarantee Scheme was announced by the Ministry of Trade and Industries in 2001 but was not implemented. Currently, the only government-supported loan guarantee scheme in operation is operated by Eximguaranty Company which is majority-owned by the Bank of Ghana. However, the company's operations are limited by the size of its guarantee fund. Although ¢10 billion was voted in the 2004 budget to augment the guarantee fund, it is small relative to the needs of the SME sector (Mensah, 2004).

Small and Medium-scale Enterprise financing from financial institutions

The formal financial sector in Ghana comprises commercial banks (including Merchant Banks and Development Banks), 17 of which operate a network of 303 branches in the country; 115 rural and community banks, savings and loan companies and non-bank financial institutions (Kayanula & Quartey, 2000). Recently, as banks and other financial institutions have sought to broaden their loan portfolio, SMEs have become an increasingly attractive customer group. Traditionally, however, financial institutions in Ghana have been cautious with lending to SME groups because of high default rates and risks associated with the sector. Few banks have therefore developed an explicit policy for SME target groups taking the particular requirements and

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needs into consideration, e.g. developing earmarked financial products and appropriate credit management systems.

Only few banks have SME specific loan products, and many of these are donor funded. According to Kayanula and Quartey (2000), a few banking institutions have SME desks or departments. For the others, lending to micro and small businesses is simply transacted by credit officers from corporate finance departments of the bank who generally apply the same appraisal and lending principles to SMEs. None of the commercial banks have any specialised training for credit officers in proven SME lending techniques, and most credit officers do not have any prior SME specific experience.

Reasons for ineffective SME credit schemes

According to Bani (2003), SME credit scheme has been ineffective due to three main reasons:

1. Inadequacy of the institutional framework;
2. Legal and regulatory framework; and
3. SME managerial capacity and lack of training.

Adequacy of institutional framework

Among the resources needed for the production of goods and services, there are many things that set capital apart from the other inputs. Assets such as equipment and land provide benefits that derive from their physical characteristics. For example, a machine is built according to specifications that define its rate of output. When we buy the machine, we know exactly what its output rate is. Unfortunately we cannot say the same thing about the financial

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resources used to run a business. The acquisition of financial resources leads to contractual obligations. The fact that financing agreements create contractual obligations means that the supply of financing to businesses depends on whether contracts can be designed that create the appropriate incentives for both the supplier and user of funds. This is called the principal agent problem.

In business financing, the principal is the supplier of funds and the agent is the user of funds. The ideal contract is one that induces the agent to act in the best interests of the supplier of funds. If such contracts can be created, the supply and demand for funds will be brought into balance since there is a mutually beneficial relationship between the supplier and user of funds. But there are many reasons why such contracts are difficult to attain. First there is a moral hazard problem arising from the possibility that the borrower may take actions that may not be observable to the lender. For example, a borrower may borrow funds with the declared objective of investing the funds in business equipment.

However, the lender may have no means of verifying whether the borrower actually used the funds for the declared objectives (Bani, 2003; Mensah, 2004). In Ghana, we have heard many times about businessmen who borrow funds in the name of a business only to walk out of the bank and buy the latest Mercedes Benz model. When the lender is unable to monitor the borrower's behaviour, the lender's funds are put at risk since the risk of default increases. In addition to the difficulty of monitoring actions of the borrower, there is a second problem called adverse selection relating to the information requirements of a lending contract. In order for a lender to be able

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to make a sound lending decision, he needs to know about the borrower's financial situation, their assets and liabilities and character indicators that would give the borrower the confidence that the loan would be repaid.

The borrower, on the other hand has an incentive to hide all negative information from the borrower. For example, the borrower may not have the assets that she claims to have; or the profitability of the business that he or she runs may be less rosy than the picture she paints to the lender. When the prospective borrower knows more about her true finances than the lender, negative information, which is relevant to the lending decision, is not revealed and the lender is exposed to the risk of selecting borrowers with a high credit risk (Mensah, 2004).

In the absence of opportunities for monitoring borrower actions and for verifying the information provided by borrowers, there might be situations where both borrowers either withdraw from the market or impose borrowing conditions, which are difficult for most borrowers to comply. The contracting problem just described is not confined to loan financing. Investors who make funds available to businesses by acquiring shares are also in a contractual relationship, which entitles them to participate in the profits of the firm. Clearly, their interests are best served when the managers of the business take actions that maximize the returns to shareholders (Bani, 2003; Mensah, 2004). However, since the shareholder is unable to monitor all management actions, the manager may take unnecessary risks or pay herself a tat salary when the shareholder is not looking.

The amount of confidence with which investors would hold shares are thus affected by the confidence that they have in the available monitoring

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systems. Monitoring arrangements include audit systems and timely and accurate financial statements. The problems of moral hazard and adverse selection are especially severe in Ghana. A necessary condition for an efficient financial system is that there should be readily accessible information about participants in the system. The absence of such information creates moral hazard and adverse selection costs that can cause credit markets to fail. Market failure is reflected in the unwillingness of lenders to extend credit at any price. Creditworthy borrowers are shut out of the market (Mensah, 2004).

In economies with advanced credit markets, a significant investment has been made in building an infrastructure for collecting, storing and retrieving information about participants in the financial system, as reflected in the widespread existence of credit bureaus that maintain information. A starting point for a credit information system is the availability of systems for identifying participants in the market. The absence of such an identification system in Ghana has been a major factor in the low level of credit market development. There are also cultural beliefs that are in collision with the information and monitoring requirements of formal financial contracts. The information requirements for the efficient flow of financial resources in the formal sector of the economy are very demanding. While there is a clerical army of cashiers and book-keepers in Ghana, the ranks of qualified chartered accountants, auditors bankers and investment analysts remain thin (Bani, 2003; Mensah, 2004).

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Legal and regulatory framework

As the government recognizes, the absence of supportive laws and regulations severely limits the availability of financing for SMEs, especially from non-governmental and foreign sources. The most serious barriers to investment in SMEs come from problems related to the adequacy of laws and enforcement mechanisms for:

1. Formation of companies;
2. Require disclosure to relevant parties; and
3. Protect the interest of stakeholders with general laws establishing rights and enforcement.

SME managerial capacity and training

Training programmes are required in all aspects of SME finance:

1. Training of loan officers;
2. Training of loan guarantee officials;
3. Training of investment fund managers; and
4. Training of entrepreneurs.

Training of the SME sector is critical. It is recommended that more coordination be brought into SME training. Some centralization of the many disparate training programmes, perhaps under the NBSSI would support the design and implementation of training programmes for SMEs. These training programmes would include accounting, business management, preparation of business plans, financial statement analysis, personnel management, marketing and other subjects as well as one-on-one counseling of business owners. The lack of such training is adversely affecting the ability of SMEs to acquire

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financing and raises the risk being taken by the SMEs and lenders by entering business without the benefit of such training.

Summary

From the foregoing review, one can conclude that:

1. There is a strong demand for the government to elaborate and implement policies and strategies for financing SMEs as well as for developing and improving financial institutions and financial instruments;
2. The legal framework plays an important role in the creation and successful operation of SMEs and should encourage a simplification of the procedures involved in the creation, financing, training and other aspects of the SME sector;
3. In Ghana, banks do not pay sufficient attention to the development of SMEs. The role of governments should be to open the dialogue and to create instruments together with the banks to promote the financial aspects of successful SME development;
4. There is a great need for government to improve the different aspects of financial services for SMEs such as seed money, leasing, venture capital, and investment funding. There is lack of long-term loans; interest rates are still high. All these limit the development of SMEs.

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CHAPTER THREE

ACCESS TO FINANCE AND SME PERFORMANCE

Introduction

This chapter focuses on concepts related to sources of finance for SMEs, financial structure and theories on financing SMEs. Specific theories discussed were the traditional approach, the Modigliani and Miller (M&M), the pecking order theory, the trade-off choice framework and the agency cost theory. Also, concepts of SME performance are discussed in this chapter. In addition, studies based on these theories and concepts are explained.

Sources of finance for small and medium-scale enterprises

Any business idea requires resources to become a reality and financing of this need become a major decision of managers. Business firms of all sizes select their financial structure in view of the cost, nature and availability of financial alternatives (Pettit & Singer, 1985). Pettit and Singer further argued that the level of debt and equity in a smaller firm is more than likely a function of the characteristics of the firm and its managers. SMEs need financing to fund operating needs, short- and long-run investment objectives, expansion projects and capital structure adjustments. SMEs also may need funding for working capital requirements and merger or acquisition transactions.

These entities usually are unable to finance projects with internal funds because their turnover and profit levels are limited. An enterprise, which commits itself to an activity, requires different sources of finance. No business firm can be promoted, established and expanded without adequate financial resources (Deloof & Jegers, 1999; Mian & Smith, 1992). Success and survival

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of a business depends on how well its finance function is managed. The competitive nature of the business environment requires firms to adjust their strategies and adopt good financial policies to survive and sustain growth. Most firms have an important amount of cash invested in accounts receivable, as well as substantial amounts of accounts payable as a source of financing (Deloof & Jegers, 1999; Mian & Smith, 1992).

Finance for all businesses, be they small, medium or large, takes the form of equity and debt. However, the components of these two main sources differ between SMEs and larger firms. Specific sources of finance for SMEs, the different sources available to larger firms, and sources of equity and debt for SMEs in Ghana are discussed below.

Equity financing

Equity finance for SMEs is money invested in a business by owners and/or investors in exchange for an ownership position in the business. Equity providers take the risk of failure and benefit through participation in profits and through the eventual sale of their stake (English, 2001; Holmes et al., 2003). Strengthening the equity capital of an SME implies less reliance on debt and consequently reduced financing costs for the firm. Apart from the promoter's own contribution, incorporating the business and selling shares is bound to strengthen its financial situation, increasing the proportion of equity to debt in its capital structure. It also serves to improve transparency, which is a major step forward compared with individually held businesses (OECD, 2005).

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Equity finance is available via internal and external sources. Internal equity for SMEs comes mainly from the owners' savings, sometimes from family and friends, and also from retained earnings (Holmes et al., 2003; Ratnatunga, Romano, & Lourens, 1993). A number of SMEs are started with the personal savings of the business owners and/or equity from their family and friends. However, these sources are inadequate for funding growth. Tunisia has introduced some very effective instruments to strengthen the equity position of SMEs. There are tax breaks for parties who subscribe to and participate in the capital of SMEs.

This translates into a reduction of the tax base at variable rates and consequently a lower income tax burden at the end of the year. Tax relief is granted at variable rates in line with national goals set in advance. Those rates vary as a function of the project's location, such as 100% in Regional Development Zones, its focus on exports. There is flexible and light taxation for venture capital investment companies (SICARs) and venture capital mutual funds (FCPRs), which hold shares in the capital of SMEs, notably those run by highly-educated people, SMEs established in Regional Development Zones, SMEs specialised in new technologies, and so on (OECD, 2005).

Potential external equity funds for SMEs are angel financing, venture capital and public share offers. These sources of external equity finance do not play a significant role in funding SMEs. This is because providers of these funds look for companies with good prospects for management, high potential for success, and good financial information records, and only a small number of SMEs meet these criteria (Holmes et al. 2003). Moreover, unlike large

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public companies, SMEs typically do not have the option of issuing shares or bonds (Cole & Wolken, 1996; Holmes et al., 2003; Peterson & Rajan, 1994). They do not meet the listing requirements, particularly on the main board market. Moreover, the few SMEs that are able to issue shares on capital markets incur relatively high transaction costs (Carter & Van Auken, 1990; Peterson & Rajan, 1994; Van Auken & Holman, 1995).

In some countries, the second board market, with lower listing requirements, has been developed to provide alternative equity finance for SMEs and this is known as the Alternative Investment Market (AIM). However, funds raised from secondary boards are limited since SMEs again do not seem to be able to meet the requirements (Carpentier & Suret, 2006). Thus, internal equity continues to be the major source of equity for SMEs. The reliance of SMEs on internal equity has been attributed to their inability to access finance from other equity sources, the lack of marketability of private company shares, and their fear of losing control as a result of their financing choices (Hamilton & Fox, 1998; Holmes et al., 2003; Holmes & Kent, 1991).

Debt financing

Debt financing is a strategy that involves borrowing money from a lender or investor with the understanding that the full amount will be repaid in the future usually with interest. Debt providers do not require ownership positions in the business. The main differences between debt and equity are that debt providers request interest payments and principal repayments, and the borrowed money is usually secured on business assets or the personal assets of owners and/or shareholders. The interest rate reflects the level of risk

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that the lender undertakes by providing the money. Debt financing entails less risk than equity financing, thus it is usually cheaper. Debt providers also have the power to initiate bankruptcy proceedings if the business defaults on debt interest or repayments or its prospects decline. They are usually the first to receive payment of interest when there is profit (English, 2001)

Though there are several possible methods of debt financing available to small businesses and these include private placement of bonds, convertible debentures, industrial development bonds, and leveraged buyouts, by far the most common type of debt financing is a regular loan. Loans can be classified as long-term (with a maturity longer than one year), short-term (with a maturity shorter than two years), or a credit line (for more immediate borrowing needs). They can be endorsed by co-signers, guaranteed by the government, or secured by collateral—such as real estate, accounts receivable, inventory, savings, life insurance, stocks and bonds, or the item purchased with the loan (English, 2001).

Sources of short-term debt for SMEs include trade credit, and loans from banks and other financial institutions (Holmes et al., 2003). Long-term debt, on the other hand, is an obligation due for repayment after more than one year. Whereas short-term debt is a major source of outside finance for SMEs, long-term debt plays a less significant role in SMEs because of the requirement of collateral security. The major source of formal debt finance for SMEs, whether short- or long-term, is the bank loan (Cole & Wolken, 1996; Coleman, 2004; Perterson & Rajan, 1994; Startups, 2004). This is because the number and types of banks providing business credit has expanded; thus,

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SMEs have more finance providers and financial services from banks to choose from than from other financial institutions (Cole & Wolken, 1996).

However, due to the difficulty involved in obtaining finance from formal financial institutions, the informal credit markets play a major role in lending to small businesses (The Committee of Donor Agencies for Small Enterprise Development, 1989). Sources of informal finance include family loans, pawnbrokers, middle men, and tontines (an informal system of banking frequently found among Chinese and other Asian communities (Choy, 1990)). Bootstrapping is yet another source of finance adopted by small firms to gain funding through informal or short-term sources, such as absorbing resources from customers and suppliers. It is an alternative means of meeting the need for resources without relying on long-term external finance (Winborg & Landstrom, 2001). The interest rates charged by these informal sources are usually higher than in the formal sector, and exceed the ceilings under usury laws.

Financial structure

Financial structure comprises the various types of debt and equity employed by a business in order to establish and expand its activities. It is the framework of various types of financing employed by a firm to acquire and support resources necessary for its operations (Esperanca et al., 2003; Peirson et al., 2002; Riahi-Belkaoui, 1999; Sogorb-Mira, 2005). Different types of finance have different required rates of return due to differences in associated risk. Thus, each type of finance is associated with a different cost (Brigham, Gapenski & Ehrhardt, 1999). Cost of equity is the return that equity holders

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expect to earn when they invest in a company. It comprises the dividend compensation for bearing risk and waiting for return on investment, and the increase or decrease in the market value of the shares over time (ValuePro, 2004).

Cost of debt, on the other hand, is the interest rate a company has to pay on all its debt within a specified period of time (Peirson et al., 2002). The interest rate comprises a nominal rate and a risk premium, which in turn are based on the risk profile of the firm. Due to the different costs of equity and debt finance, businesses consider not only the amount of money needed when evaluating various sources of funds, but also the cost involved. In general, a firm's choice of financial structure depends on attributes that determine the various costs and benefits associated with each type of debt and equity financing (Abor & Biekpe, 2005).

A number of studies in this area suggest that SMEs tend to rely more on internal equity than on debt because of the high interest rate associated with debt and external equity finance. Indarti and Langenberg (2004) found that most SMEs in Indonesia depend on personal savings (56%) and family investment (23%) as their main financial sources. About 3 percent of the enterprises take advantage of bank loans. Additionally, Ghosh, Kim and Meng (1993) showed that the main sources of financing for SMEs in Singapore are personal savings and the family.

Though SMEs seem to depend mostly on internal equity, empirical studies reveal that a number of SMEs use debt. Van Auken, Doran and Yoon (1993) provided new insights into the financial structure of smaller firms in developing economies. Canonical correlation techniques were used to examine

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the Financial Positions of 45 Korean SMEs. The results were then compared to those of similar studies of SMEs in the United States. Data on Korean SMEs were obtained from Annual Reports of Korean Companies, and comparable data on US small and large firms was acquired from the studies conducted by Carter and Van Auken (1990) and Stowe, Watson and Robertson (1980). The results show that SMEs in both Korea and the United States mainly obtained finance from debt. When the financial structures of SMEs were compared to those of larger firms, the results was consistent with the findings of Carter and Van Auken (1990), showing that SMEs in both Korea and the United States rely more on debt financing, than do large US firms.

The increasing proportion of debt finance in SME financial structure has been a feature of a number of studies. Hamilton and Fox (1998) used a postal survey to investigate the financial preferences of small firm owners and found that the proportion of firms with initial funding from the founder's own savings fell from 76 percent during 1980 to 60 percent during 1992-1994. In contrast, the percentage of businesses depending on debt finance increased from 11 percent to 24 percent in the same time period. In addition, they reported that, when owners had to augment ongoing funding, around 41-54 percent of them would seek only debt finance. Furthermore, on average, 41 percent of owners would consider a new equity investor only if there was no effect on their control over the business. The percentage decreased to 22 percent if new equity meant some weakening of control.

It appears from literature that the general assumption that internal equity is the major source of finance for SMEs does not apply at all stages of small firm development. The type of finance employed tends to vary with each

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stage of development (Berger & Udell, 1998). Berger and Udell (1998) suggested that start-up firms are heavily dependent on initial insider finance because it is difficult to access external finance at this stage, unless they can provide substantial collateral. Debt finance would typically come later, after they achieve a level of production such that their financial positions reflect substantial tangible business assets such as inventory and equipment that could be pledged as collateral. Various theories have been developed to explain the variation in the mix of debt and equity in SMEs. These theories are discussed in the following sections.

Theories of financial structure

Five major theoretical frameworks have been proposed in literature to explain the financial structure of SMEs: the traditional approach, the Modigliani and Miller (M&M), the pecking order theory, the trade-off choice framework and the agency cost theory. The sections below will examine the application of these frameworks to SMEs that underpin this study.

Traditional theory

The traditional view, which is also known as an intermediate approach, is a compromise between the net income approach and the net operating income approach. It deals with the issue of the right mix of debt and equity in the financial structure of an individual firm. This view suggests that the cost of finance is a weighted-average cost of equity and debt in a firm's financial structure. The cost of debt is lower than equity because interest on debt is deductible for tax purposes. Moreover, even if there is no tax deductibility,

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debt is lower because it carries less risk. Hence, the introduction of debt into the financial structure reduces the average cost of finance (McLaney, 2000). The traditional view assumes that there is an optimal capital structure and that the firm can increase the total value of the firm through judicious use of leverage.

However, Samuels, Wilkes, and Brayshaw (1999) reiterated that there are two consequences of increasing debt level in the financial structure. Firstly, the equity holders require a higher rate of return when they realise that the risks associated with their investments are increasing. Secondly, lenders also realise the higher risk on their investment caused by the increase in the leverage levels and demand higher interest payments. These two main factors erode the advantage gained by substituting lower cost debt for equity, eventually increasing the cost of both debt and equity (Samuel et al., 1999). The upshot of this is that, if a company takes on debt, the overall cost of finance is initially reduced up to a point. Beyond that point, however, if debt continues to increase then the cost of finance also starts to increase.

Therefore, there is a level of debt for each firm where the average cost of finance is at its lowest point, and shareholder's wealth and the value of the firm are maximised (McLaney, 2000; Samuel et al., 1999). However, it is argued that debt has no effect on either the cost of capital or the value of the firm. The weighted-average cost of capital is constant, as the benefits of using cheaper debt are offset by the increase in the cost of equity due to the higher expected rate of return on equity (McLaney, 2000; Romano, Tanewski & Smyrnios, 2001). The optimal financial structure was developed by Modigliani and Miller (1958; 1963) to support this argument.

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The Modigliani and Miller theory

Modigliani and Miller (1958; 1963) were the first to carry out a vigorous analysis of the effect of gearing on cost of capital and firm value. Their two propositions related to financial structure are among the most important contributions to the theory of corporate finance. The first proposition suggests that financial structure does not affect cost of finance or the value of the firm. This proposition was initially framed in a highly simplified environment that assumed no taxes and no transaction costs. In the absence of taxes, the increase in return to stockholders resulting from the use of debt is exactly offset by the increase in risk.

Modigliani and Miller (1958) assumed that the firm has a particular set of expected cash flows. When the firm chooses a certain proportion of debt and equity to finance its assets, all that it does is to divide up the cash flows among investors. Investors and firms are assumed to have equal access to financial markets, which allows for homemade leverage. The investor can create any leverage that was wanted but not offered, or the investor can get rid of any leverage that the firm took on but was not wanted. As a result, the leverage of the firm has no effect on the market value of the firm. Therefore, the weighted-average cost of finance and the value of the firm are constant for all combinations of debt and equity, as there is no benefit to using debt (McLaney, 2000; Romano, Tanewski & Smyrnios, 2001).

According to Modigliani and Miller (1958), capital structure emphasized that the value of a firm depends on real variables rather than slicing the pie of financing. Corporate debt funding provides a corporate tax shield and this tax shield may be more than to compensate for any extra

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personal tax that the investor has to pay on debt interest. However, the benefit of tax shield can be offset by the prospect of potential bankruptcy costs. Perhaps differences in capital structure reflect differences in the relative importance of growth opportunities. The latter proposition suggests that, with taxes and the deductibility of interest charges, the total cost of finance is decreased by adding as much debt as possible to the financial structure. This is because interest on debt is deductible for tax purposes; thus, the cost of debt becomes lower than the cost of equity. In other words, the greater the level of debt in the financial structure, the lower the average cost of finance.

The Modigliani and Miller theory assumes that debt does not add significant risk to equity, so that the company does not have to offer higher returns to its equity holders when debt levels are increased. Returns to equity holders increase as the level of debt increases. An implied assumption in the Modigliani and Miller theory is that bankruptcy is costless reallocation of resources, so that bankruptcy is not a major concern to shareholders. Also, in a perfect market, if the firm does not have sufficient funds to meet its interest obligations in a particular year, it should be able to borrow to cover the short fall as long as it is profitable in the longer term (Chittenden, Hall & Hutchinson, 1996; McLaney, 2000).

The optimal financial structure may not always hold for SMEs, as it is based on impractical assumptions. Unlike larger, particularly publicly held companies, SMEs typically do not have the option of issuing stocks or, more relevantly, bonds. As highlighted by Ang (1991; 1992) and Carter and Van Auken (1990), financial structures of SMEs and large businesses are dissimilar because of several unique characteristics of smaller businesses, such as a lack

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of publicly traded securities and the high cost of financial markets. Moreover, Binks, Ennew and Reed (1992) showed that some firms cannot obtain funds through the banking system, because they have insufficient collateral, or they cannot provide information relevant to their project quality or their ability to return money.

These findings imply the existence of imperfections in the financial market that are incompatible with the assumptions of this theory. Therefore, the central hypothesis of the Modigliani and Miller framework, that adding as much debt as possible to the financial structure will reduce cost of finance, is clearly of limited use in explaining the financial structure of SMEs as these seem to develop structures that have a minimum, rather than maximum, amount of debt (Ang, 1991; Ang, 1992; Chittenden et al., 1996; Coleman & Cohn, 2000). Since imperfections in the financial market exist, the assumptions of this theory do not always explain the financial structure of businesses, especially SMEs. The pecking order framework was developed as an alternative theory capable of explaining firm financial structure.

The Pecking Order theory

The pecking order theory proposed by Myers (1984) suggested that firms have a particular preference order for their choices of financing. The pecking order theory does not take an optimal capital structure as a starting point, but instead asserts the empirical fact that firms show a distinct preference for using internal finance (as retained earnings or excess liquid assets) over external finance. If internal funds are not enough to finance investment opportunities, firms may or may not acquire external financing,

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and if they do, they will choose among the different external finance sources in such a way as to minimise additional costs of asymmetric information. The latter costs basically reflect the "lemon premium" (Akerlof, 1970) that outside investors ask for the risk of failure for the average firm in the market.

The resulting pecking order of financing is as follows: internally generated funds first, followed by respectively low-risk debt financing and share financing. Thus, the business will seek to obtain external equity finance only when these two sources cannot provide enough funds to meet its needs. This hierarchical pecking order is therefore based on internally available funds, debt, and external equity. According to Myers and Majluf (1984), outside investors rationally discount the firm's stock price when managers issue equity instead of riskless debt. To avoid this discount, managers avoid equity whenever possible. The Myers and Majluf model predicts that managers will follow a pecking order, using up internal funds first, then using up risky debt, and finally resorting to equity. In the absence of investment opportunities, firms retain profits and build up financial slack to avoid having to raise external finance in the future.

The pecking order theory regards the market-to-book ratio as a measure of investment opportunities. With this interpretation in mind, both Myers (1984) and Fama and French (2004) note that a contemporaneous relationship between the market-to-book ratio and capital structure is difficult to reconcile with the static pecking order model. Iteration of the static version also suggests that periods of high investment opportunities will tend to push leverage higher toward a debt capacity. To the extent that high past market-to-book actually coincides with high past investment, however, results suggest

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that such periods tend to push leverage lower. Empirical evidence supports both the pecking order and the trade-off theory.

Empirical tests to see whether the pecking order or the trade-off theory is a better predictor of observed capital structures find support for both theories of capital structure (Fama & French, 2004; Shyam-Sunder & Myers, 1999). There are two explanations associated with this particular preference order for the financing choices of the firms, transaction costs and information asymmetries (Cassar & Holmes, 2003). The transaction cost explanation refers to firms obtaining as much finance as necessary from the cheapest and easiest source before moving on to the next least expensive. Transaction costs, such as the application and start-up fees of internally generated funds (retained profits or contributions of existing owners), are the lowest, and followed by the transaction cost of debt and then external equity. Hence, firms prefer internal funds to debt, and debt to external equity (Chittenden, Hall, & Hutchinson, 1996).

The second explanation is that information asymmetry between the firm and its potential financiers will introduce inequities into the costs associated with various sources of finance. In other words, the greater the information asymmetries from various sources of outside financing, the higher the return on capital demanded by each source. For example, new equity holders will expect a higher rate of return on their capital investment than owners of existing internal funds since they have less information about the firm than internal equity holders. This result in the higher cost of external equity finance compared with internal sources of equity. In this scenario, firms will prefer internal funds over external equity. The same logic is applicable

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when debt providers and internal sources of funds are compared. Accordingly, firms will prefer internal equity to debt, short-term debt to long-term debt, and any debt to external equity.

For SMEs, external equity is not an option so they face a 'constrained' Pecking Order Framework (Cassar & Holmes, 2003; Chirinko & Singha, 2000; Chittenden, Hall, & Hutchinson, 1996). Perterson and Rajan (1994), however, argued that though similar funding preferences to the pecking order theory apply to smaller enterprises, the reasons behind their preferences differ from those of larger firms. Unlisted SMEs rely heavily on the owner's capital because they do not have the option of issuing additional equity to the public. Furthermore, in keeping with agency theory, owners/managers strongly desire to maintain control of strategic decisions, and are afraid of losing control of the firm because of outside financing decisions or pressures. Therefore, internal sources are the most preferred by SMEs, followed by debt, and then external equity (Hamilton & Fox, 1998; Holmes & Kent, 1991).

The Trade-Off choice framework

The term trade-off theory is used by different authors to describe a family of related theories. In all of these theories, a decision maker running a firm evaluates the various costs and benefits of alternative leverage plans. Often it is assumed that an interior solution is obtained so that marginal costs and marginal benefits are balanced. It describes financial structure by exploring the friction among the tax advantages of debt, the increase in expected bankruptcy costs, and agency costs. Cassar and Holmes (2003) suggested that firms trade off "several aspects, including the exposure of the

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firm to bankruptcy and agency costs against the tax benefits associated with debt use". Bankruptcy costs are those that are directly incurred when businesses are perceived to be unable to pay their debts as and when they fall due. In response to the perceived risk of defaulting on finance payments, lenders will increase their cost of debt to incorporate the potential costs associated with liquidating the net assets of the firm in the event of bankruptcy (Berger & Udell, 1998; Cassar & Holmes, 2003; McLaney, 2000).

Bankruptcy costs will occur even if only non-lending stakeholders believe that the firm has a chance of being discontinued. For instance, if firms are perceived to be bankrupt, suppliers may be less willing to extend trade credit and customers are less likely to buy goods and services due to the risk of unfulfilment of product quality standards, while employees may also have less incentive to work for the firms. The response from non-lending stakeholders will also reduce the value of the firm and increase the costs of outside financing. Given these bankruptcy costs, a firm's financial structure is influenced by the risk that it may not be able to operate under normal circumstances. Firms with higher operating risk would have greater bankruptcy costs and thus face higher costs of securing outside debt. Thus, higher risk firms seek to reduce external debt to decrease the total cost of finance (Cassar & Holmes, 2003).

Agency cost theory

Agency costs arise from conflicts between the goals of management and those of suppliers of finance when external funding is introduced into the financial structure. Agency costs are those associated with monitoring the

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decisions and actions of agents (managers) to ensure that they are in the best interest of the principals, that is, external equity and debt holders (Ang, Cole, & Lin, 2000). The agency theory does not have the same application to SMEs as it does to larger firms because generally the owners of SMEs are also the managers (Ang, 1991). For larger firms, agency relationships are associated with external share and debt holders (the principals) for whom the managers act as agents.

For SMEs, agency costs are generally associated with debt finance, and venture capitalists and business angels who constitute the major sources of external equity in SMEs (Coleman & Cohn, 2000). External equity providers use tools such as position on the company board and equity interest in the firm to minimise the agency costs associated with their investments (Holmes et al., 2003). These monitoring devices increase the cost of finance to the firm. Consequently, firms with greater conflict between owners/managers and debt and external equity holders would have higher agency costs and therefore lower levels of external financing (Cassar & Holmes, 2003). To reduce the cost of finance, these firms would generally avoid debt and external equity. However, agency theory suggests that the value of the firm will be increased with higher debt. This is because interest payments and debt repayments reduce 'free cash flow' and hence limit owners/managers' ability to divert resource to themselves (Beal & Goyen, 2005).

Tax benefits from debt are another issue considered within the trade-off framework. The use of debt is encouraged because of the tax deductibility of interest payments. However, the use of debt leads to bankruptcy and agency costs which wear away the benefits of using debt (tax deduction) (Chirinko &

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Singha, 2000). From the trade-off choice framework discussed above, though tax benefit encourages firms to use debt finance, the anticipation of higher finance costs associated with the potential costs of liquidation and monitoring encourage SMEs to avoid debt. Therefore, trading off tax benefits related to debt and the potential costs of liquidation and monitoring usually influence the final financial structure of the firm (Brounen & Eichholtz, 2001; Chirinko & Singha, 2000; Romano, Tanewski, & Smyrnios, 2001).

The five main theories (Traditional Theory, M&M optimal Financial Structure, Pecking order framework, Trade-off choice framework and Agency Cost) used to explain the financial structure of SMEs are summarised below. It can be seen that the theoretical literature applied to explaining the financial structure of SMEs is based on costs derived from information asymmetries, bankruptcy costs, and agency costs (Abor & Biekpe, 2005). The concept of optimal financial structure is based on information asymmetry. The justification for a hierarchy of firms' preferences in the pecking order framework is based on the implications drawn from information asymmetry.

SMEs initially depend on internally generated funds where there is no information asymmetry. They will turn to debt if additional funds are needed, and they will finally issue external equity to cover any remaining financial requirements. The explanation put forward by the trade-off choice framework is based on weighing the tax benefits of debt against bankruptcy and agency costs. The theories and issues discussed in the preceding sections suggest that access to finance is a critical factor in SME performance.

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Table 2: Theories of financial structure

Theories	Description
Traditional theory	If a firm takes on debt, the overall cost of finance is initially reduced up to a point. Beyond that point, if debt continues to increase then the cost of finance will start to increase. Thus, there is a level of debt in the financial structure for each firm where the average cost of finance is at its lowest point and shareholder's wealth and value of the firm are maximised.
Modigliani and Miller optimal financial structure	In the absence of taxes, there is no benefit to using debt. Thus, financial structure does not affect the cost of finance nor the value of the firm
Modigliani and Miller 2	With taxes and deductibility of interest charges, the cost of debt is lower than that of equity. Therefore, the firm has to add as much debt as possible to the financial structure in order to reduce the total cost of finance.
	The existence of imperfections in the financial market when SMEs access finance suggests that this approach does not always hold for SMEs.

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Table 2 continued

Theories	Description
Pecking order framework	The firm has a particular preference order for its choice of funds in its financial structure: internal equity, debt, and external equity. It is argued that though similar funding preferences to pecking order theory apply to smaller firms, the reasons for their preference differ from those of larger firms.
Trade-off choice framework &	Financial structure results from trading off tax benefits with debt used by the firm against the potential costs of liquidation and monitoring.
Agency Cost	This approach uses two of the most important concepts developed to explain the capital of small firms: bankruptcy costs and agency costs.

Source: Sarapaivanich (2006)

The concept of SME performance

The need for companies to align their performance measurement systems with their strategic goals is well documented in literature (Eccles, 1991; Gregory, 1993; Kaplan, 1983). To address this need, a number of frameworks and processes (approaches) for the development of performance measurement systems have emerged. The most popular of these is the balanced scorecard (Kaplan & Norton, 1992), which emphasises a balance between the use of financial and non-financial measures to achieve strategic alignment. The popularity of the balanced scorecard has acted as a catalyst for

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further research into the characteristics of, and approaches for developing, strategic performance measurement systems (Bititci *et al.,* 1997; Neely *et al.* 1996a; 1996b; Oliver & Palmer, 1998).

However, few organizations appear to have systematic processes in place for assessing and maintaining their performance measurement systems (Kennerley & Neely, 2002). The ability of keeping the performance measurement systems continuously updated is a challenge for every firm, but particularly for SMEs, which need to be extremely flexible and reactive to market changes while being characterised by lack of resources and managerial expertise (Hudson et al., 2001; Garengo et al., 2005). Literature on performance measurement treats the subject regardless of the size of the business (Carpinetti et al., 2008) and even if many performance measurement approaches have been proposed, few are the publications focusing specifically on performance measurement in small and medium-sized enterprises (Garengo et al., 2005).

At the same time, models developed for large enterprises seem not to apply well to SMEs (Cassell et al., 2001; Storey, 1994), as confirmed also by the gap between theory and practice observed by numerous authors in SME (Cocca & Alberti, 2010; Hudson et al., 2001; Sousa et al., 2006). Therefore, there is a need to establish the relevance of existing performance measurement approaches for SMEs and to identify an appropriate process for the design and implementation of strategic performance measurement systems in this context (Hrebiniak, Joyce & Snow 1989; Rodsutti & Swierczek, 2002). A review of literature identifies four major approaches to describing performance: the goal

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approach, the system resource approach, the process approach, and the constituency approach (Ford & Schellenburg, 1982).

Goal approach

The goal approach, one of the earliest concepts of performance, defines performance in terms of goal achievement (Etzioni, 1964). The goal approach to effectiveness consists of identifying an organisation's output goals and assessing how well the organisation has attained these goals. This is a logical approach because organisations do try to attain certain levels of output, profit, or client satisfaction. It measures progress toward attainment of those goals. Initial models of this approach focused on a single goal such as profit, productivity, organisational growth, or stability (Steers, 1975). Profit is often selected as a goal of a firm because it is a target pursued by most firms; indeed, it is assumed that firms need to make profit if they are to survive. Among all the approaches, goal approach is most commonly used method due to its simplicity, understandability and internally focused. Information is easily accessible by the owners/managers for evaluation process (Pfeffer & Salancik, 1978).

However, this analytical emphasis on a single goal has been questioned because it fails to capture all the factors involved in performance. Besides, such an emphasis can distort the picture of an organisation's goal(s) since it excludes from consideration other goals that are equally important and pursued (Ramanujam, Venkatraman, & Camillus, 1986). In response to these limitations of the single-goal approach, more sophisticated models involving several goals have been developed as ways of conceptualising performance in

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SMEs. This extension of the goal approach views performance in terms of an organisation's capacity to use its resources successfully towards specific ends. A set of relevant goals, such as profitability, satisfaction, productivity, resource acquisition, growth, and survival, are used together as they all influence organisational performance (Cooper, Gimeno-Gascon & Woo, 1994; Steers, 1975).

The main criticism of the multiple-goal approach is that useful and valid sets of criteria and organisational goals are difficult to determine (Lachman & Wolfe, 1997; Rodsutti & Swierczek, 2002; Steers, 1975). Each goal has a different degree of influence on organisational performance. It is therefore suggested that goals must be prioritised in order to clearly define their relative importance. Steers (1975) mentioned that to make this approach effective, a weighting must be assigned to each goal that reflects the value attached to it. However, finding the most suitable set of goals and establishing the priorities of various goals are still problematic tasks. This is because different firms may not pursue the same set of goals (Lachman & Wolfe, 1997; Rodsutti & Swierczek, 2002; Steers, 1975). Due to limitations such as these, the systems approach has been proposed as an alternative way of conceptualising performance.

System resource approach

In contrast to the goal approach, the system resource approach emphasises the means necessary to achieve ends (Lachman & Wolfe, 1997; Yuchtman & Seashore, 1967). This approach views organisational performance in terms of the organisation's ability to acquire scarce and valued

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resources from the environment. It is based on the assumption that businesses are built up from the resources and capabilities that they currently possess. The term 'resource' was conceived by Wernerfelt (1984, p.172) broadly as "anything that can be thought of as a strength or a weakness" of the firm. According to the system resource approach, the more resources an organisation can acquire and exploit, the better the position it gains in sustaining a competitive advantage, and thus, the better its performance (Dhanaraj, 2003; Lachman & Wolfe, 1997; Yuchtman & Seashore, 1967).

The system resource perspective defines performance in terms of the key internal and external factors that the organisation depends on for survival plus the ability to enhance its resource base with scarce and valuable resource. This approach not only emphasises the specific achievements of organisations, but also the means of achievement (Lachman & Wolfe, 1997; Rodsutti & Swierczek, 2002). Ford and Schellenburg (1982), Lachman and Wolfe (1997) and Rodsutti and Swierczek (2002) observed that, although this approach provides an insight into the nature of the performance construct, relevant systems are difficult to delineate, define and assess. This means it does not explain the organisation's performance in the context of its interactions with resources from its environment, it has also been argued that concepts and measurements used in the systems resource approach are not well developed (Pratt & Eitzen, 1989). Thus, the process approach was proposed as an alternative approach for conceptualising performance.

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Process approach

The process approach focuses on organisational functioning and integration (Chelladurai & Haggerty, 1991; Steers, 1977). Under this approach, an organisation's performance is viewed in terms of the efficiency of its internal processes and general operations. Organisations that can provide a harmonious and efficient internal environment are viewed as viable organisations (Steers, 1977). Although conceptualising organisational performance on the basis of the process approach provides additional insight into the nature of performance, it has been criticised on the grounds that the relevant processes are difficult to define and assess (Lachman & Wolfe, 1997). Moreover, it has been argued that the effective operation of an organisation would not necessarily result in heightened organisational performance since the sum of efficient components may not lead to an efficient whole (Weese, 1997).

Another shortcoming of this approach lies in its one-sided view of performance; that is, constituent groups who have an influence on the activities and decisions of an organisation such as clients, employees and shareholders are ignored. These individuals or groups have identifiable common interests, and therefore their viewpoints should be included when organisation performance is being evaluated (Papadimitriou & Taylor, 2000). Dissatisfaction with the goal, systems resource and process approaches thus resulted in the development of the constituency approach as a way of providing a more representative picture of the performance of organisations.

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Constituency approach

The constituency approach views organisations as open systems involving parties or stakeholders, such as shareholders, employees, and society (Connolly, Conlon, & Deutsch, 1980). This approach seeks a definition of performance based upon the behaviour of an organisation's constituents (Davidson & Griffin, 2000; Ford & Schellenberg, 1982; Steers, 1977), and suggests that performance is evaluated as the ability of the organisation to account successfully for its outputs and operations to its various internal and external constituencies (Connolly, Conlon, & Deutsch, 1980; Ford & Schellenberg, 1982; Gaertner & Ramnarayan, 1983). This definition implies a shift in focus from the internal organisational level to the influence of the organisation on its environment. Examples of criteria suggested for assessing performance under the constituency approach are employee injuries, consumer sovereignty, and the quality of society (Keeley, 1984).

Under this approach, performance is both multi-dimensional and subject to multiple evaluations, with each valuation distinctive to the evaluator. As a result, it is possible for the organisation to be assessed as good on some dimensions and poor on others, or to score different assessment results on the same dimension from different evaluators (Hage, 1980). While it is generally agreed that performance should be viewed in relation to one or more goals (Etzioni, 1964), the issue that remain unresolved are which goals, and from whose perspective. Moreover, if all constituencies are considered, the complexity of the performance concept will be increased (Khandwalla, 1977).

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Though many approaches have been developed to capture performance, there is lack of consensus about which one is the most appropriate for conceptualising performance. In addition, as highlighted at the beginning of this section, conceptual approaches are based on the direction of the research (Iakovleva, n.d.; Ramanujam, Venkatraman, & Camillus, 1986; Blackwood & Mowl, 2000). Therefore, none of these conceptual approaches is superior to the others, and each will be appropriate depending on the type of study being conducted. Lachman and Wolfe (1997), however, note that the goal approach is one of the dominant performance approaches still used currently.

Table 3: Four approaches to conceptualising organisational performance

Approach	Assessment Criteria
1. Goal	Ability to achieve its goal(s).
2. Systems Resource	Ability to acquire resources.
3. Process	Ability to manage its internal processes and general operations smoothly and efficiently.
4. Constituency	Different measures of performance from each constituent's viewpoint such as employee's injuries and customer satisfaction.

Source: Author's Construct (2011)

Moreover, it is suggested that the goal approach is particularly appropriate for SMEs, where the goals of the firm and owner are generally the same (Murphy, Trailer, & Hill, 1996). Literature on SMEs has shown that the goals of owners/managers are indistinguishable from those of their businesses

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(Ang, 1992; Glancey, 1998; Jarvis et al., 2000; Naffziger, Hornsby, & Kuratko, 1994). Similarly, Kotey and Meredith (1997) proposed that SMEs performance should be conceptualised on the basis of the extent to which the firm's goals and/or objectives have been achieved. They reasoned that at the macro level, interest in SMEs is associated with their contribution to economic development in terms of innovation, employment and income. This view is shared by others such as Acs and Storey (2004), Julien (1998), and Verheul, Risseeuw and Bartelse (2002).

There is a need to understand SME owners/managers' goals before assessing SME performance (Watson, Newby, & Woodliff, 2000), as each owner/manager has a set of goals specific to their individual situation (Naffziger, Hornsby, & Kuratko, 1994). For example, some owners may not desire growth because they are afraid of losing control of their businesses. Another justification for the goal approach is that goals serve as standards in assessing organisational performance (Etzioni, 1964; Jarvis et al., 1996a; McMahon & Stanger, 1995). Accordingly, the goal approach is used to conceptualise enterprise performance in this study. Having discussed how performance is conceptualised in literature, there is a need to identify the factors that influence the performance of SMEs, since these ultimately determine their contribution to economic development.

Determinants of SME performance

Given the importance of the role played by SMEs in economic development, understanding the factors that affect SME performance is not only crucial to the stability and health of the economy but also enables public

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policymakers and SME support agencies to better serve the SME community (Gaskill, Van Auken, & Manning, 1993). For this reason, the factors influencing SME performance are a recurrent theme in most branches of SME studies. Summarising the words of John Murphy, partner in Solvency and Reconstruction, Arthur Anderson & Co., Flahvin (1985) stated that about 70 percent of businesses that start up with nothing will fail within two years. He identified the following internal influences as factors that impede performance in SMEs: lack of finance, lack of financial control and accounting information, lack of management skills and experience, and inability to respond and adapt to change.

Similarly, Lussier (1995) compared variables identified in twenty previous studies as factors affecting the performance of SMEs. Fifteen factors most commonly cited were as follows: finance, record keeping and financial control, industry experience, management experience, planning, professional advisors, education, staffing, product/service timing, economic timing, age, partners, parents, minority, and marketing. Results from interviewing 160 business owners suggest that getting adequate start-up capital was one of the top ten factors considered crucial to business performance.

Blackwood and Mowl (2000) attempted to identify factors which were most likely to explain and therefore help to increase SME performance. Based on postal surveys, owners were asked to rate their perception of certain factors that influence business performance; these were derived from the literature and a pilot study. The following factors were identified in order of importance: access to sufficient finance, sound planning, effective financial management, management experience, industry experience, business training, use of

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external advisors, and overseas experience. The owners considered access to sufficient finance to be the most significant factor influencing performance because it was difficult to raise external finance to fund a business.

Based on a survey of 100 SMEs in Indonesia, Indarti and Langenberg (2004) showed that financial access, marketing, and technology positively affected SME performance, while legal regulations negatively affected their performance. The explanation for legal regulations having a negative influence on performance was that SMEs have to spend many resources to deal with complicated bureaucracy and legal regulations. The authors suggested that owners/managers of SMEs and other parties associated with SME development, such as government agencies, universities, and SME service units, should pay more attention to these four factors if SME performance is to improve. The above findings are summarised in Table 4. It can be seen from the table that, while several factors are cited as influencing SME performance, finance is a frequently mentioned factor.

This is hardly surprising given that finance is crucial for SME operations, particularly business start-ups, in which revenue is low or non-existent and several one-time establishment costs, such as legal fees, initial investments in inventory, equipment and property are also involved. Businesses beyond the start-up stage also need finance for expanding, upgrading and/or replacing facilities and equipment. Finance enables SMEs to undertake ambitious strategies, overcome the monetary demands imposed by growth, receive better training, and prepare more extensive plans (Aldrich & Auster, 1986; Leeds, 2003; Levy, 1993; United States Small Business Administration, 2004b).

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A number of studies have emphasised the importance of finance to SME activities and performance. For example, McQueen (1989 p. 25) stated that "the more rapidly and strongly capital can be built up, the larger and more durable a business will become". SMEs with greater finance can invest more in product or service development, production, and marketing, and have a larger financial cushion to provide insulation against market downturns or managerial mistakes and that business need finance all the time: without finance they will rapidly wither and die. Finance is therefore truly the king of all business types.

Similar evidence regarding the crucial role of finance was noted by Cooper, Gimeno-Gascon and Woo (1994). From their longitudinal study of 1,053 new ventures representing all industry sectors and geographical areas, they found that finance is one of the most visible resources that enable SMEs to carry a broader mix of merchandise, undertake more ambitious projects, provide better training for employees, and buy time while the entrepreneur learns from and/or overcomes problems. Since firms with greater financial resources have more money to pursue market opportunities, invest in product or service development, and ensure that they have the freedom and scope to grow, SME performance could be accelerated if they had greater access to finance.

Measurement of performance

Performance measurement has tended to be restricted to frameworks and theories drawn primarily from the discipline of economics (Jarvis et al., 2000). The measures of performance used often emphasise profit

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maximisation using indicators such as profit margins, sales growth, return on investment, and return on assets, as this is considered to be the goal generally pursued by most owners/managers (Palepu, Healy, & Bernard, 2000; Schutjens & Wever, 2000). Jarvis et al. (2000) regarded cash flow as a surrogate for financial performance as it is a key indicator of survival. It facilitates survival and reflects the importance of liquidity to small firms.

Based on the results from interviews of 20 owners/managers of small firms, profit measures do not accurately reflect performance since they are difficult to obtain and are not considered good indicators of day-to-day performance by owners/managers. Palepu, Healy and Bernard (2000) suggested return on equity (ROE) as another financial performance measure. They reasoned that, while there is no doubting the importance of sales and profits to a business, it is equally important to relate these output measures to their inputs, such as equity and assets. However, research has consistently recorded that focusing purely on financial criteria is not appropriate and that accessing this information is difficult (Blackwood & Mowl, 2000). The use of both financial and non-financial goals is suggested as a means of increasing the accuracy of performance measurement.

Non-financial measures of performance frequently used by researchers are job satisfaction or the ability to balance work and family responsibilities; personal freedom or independence; securing a future for family members; and pursuing one's own interests (Fielden, Davidson, & Makin, 2000). Bracker and Pearson (1996) suggested that the appropriate period over which performance should be measured in order to obtain consistent and reliable results is five years.

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Table 4: A comparison of variables identified in literature as factors contributing to SMEs performance

Author	Finance	Management Experience	Record Keeping	Industry/ Work Experience	Planning	Professional Advisors	Education	Staffing	Product/ Service Timing	Gender	Age	Partners	Parents	Minority	Marketing	Legality/ Political	Others
Yusuf (1995)	P	P	-	P	-	-	P	-	-	-	-	-	-	-	P	P	P1, P6
Barsley and Kleiner (1990)	P	P	-	P	P	P	-	-	-	-	-	-	-	-	-	-	-
Blackwood and Mowl (2000)	P	P	P	-	P	-	-	-	-	-	-	-	-	-	-	-	-
Cooper, Gascon, and Woo (1991)	P	N	-	P	-	P	P	-	-	P	-	P	P	P	-	-	-
Indarti and Langenberg (2004)	P	-	-	N	N	-	N	-	-	-	N	-	-	-	P	P	P5
Levy (1993)	P	P	-	-	-	-	-	P	-	-	-	-	-	-	P	P	P3, P4
Lussier (1995)	P	P	P	P	P	P	P	P	P	-	P	P	P	P	P	-	P7
McQueen (1989)	P	P	-	P	-	-	-	-	-	-	-	-	-	-	P	-	-
Reynolds (1989)	P	-	P	-	P	-	N	N	P	-	N	P	-	-	-	-	-

P - Variable is considered a factor contributing to performance
N - Does not consider variable a factor contributing to performance
- - Does not mention variable as a factor contributing to performance

P1 - Personal quality and traits, such as self-confidence, optimist
P2 – Social factors, such as employment and refugees
P3 – Costs, such as cost of finance, materials, and equipment
P4 – Non-financial inputs, such as materials and equipment
P5 - Technology
P6 - Overseas exposure
P7 - Economic timing

Source: Sarapaivanich (2006)

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Walker and Brown (2004) indicated that non-financial measures of performance are subjective and personally determined, and are therefore difficult to quantify. To overcome these limitations discussed above, subjective performance measures, which most commonly involve perceptual assessments and evaluation by owners/managers, are developed as an alternative method of performance measurement. McCracken, McIlwain and Fottler (2001) subjective measures are appropriate substitutes for objective measures where accurate objective measures of performance are not available, and are also useful in operationalising non-financial dimensions of performance.

Based on the evidence discussed above, the criteria used to capture SME performance in this study relate to the attainment of both financial and non-financial goals. Profitability, sales growth, and return on assets are frequently used as operationalisations of firm financial goals. Lifestyle, independence, and job security are measures widely used in previous studies to capture non-financial goals (Sarapaivanich, 2002) and these were used in this study to capture non-financial goals.

Empirical evidence on access to finance and SME performance

Access to finance has been cited as one of the most significant factors affecting SME performance (Eeden et al., 2004; Indarti & Langenberg, 2004; Leeds, 2003; Lussier, 1995; Steel & Webster, 1992). Levy (1993) conducted field surveys in Sri Lanka's leather industry, and Tanzania's furniture industry, asking entrepreneurs to rank the constraints on the expansion of their businesses. Findings were that lack of access to finance emerged as the

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leading constraint on performance for SMEs in both countries. This is inconsistent with the evidence in Bukvic and Bartlett (2003) indicating that the main financial barriers for SMEs growth and performance in Slovenia were high cost of finance, high collateral requirements, and high service charges and fees.

Studies have identified a growing gap in the financial support offered to Ghanaian SMEs. The high interest rates, collateral requirements and the cumbersome processes have often been mentioned as the main impediments to SMEs' access to bank loans in Ghana (Aryeetey et al., 1994; Bigsten et al., 2000; Buatsi, 2002; Sowa et al., 1992). Pissarides (1999) established that financial constraints that apply to SMEs arise from a number of factors, including the high cost of credit, relatively high bank charges and fees, high collateral requirements, and a lack of outside equity and venture capital. Indarti and Langenberg (2004) explained that, when small businesses experience difficulties in accessing finance, potential growth and further market opportunities are forgone.

Though a synthesis of studies confirms that access to finance is a major factor influencing SME performance, the work of Gaskill, Van Auken and Manning (1993), examined factors perceived to contribute to SME performance, yielded contradictory findings. They asked owners/managers of discontinued SMEs to indicate the extent to which 35 items cited in literature as associated with business performance contributed to the financial state of their businesses. The result of factor analysis showed that access to finance had no contribution to SME performance. Nevertheless, they suggested that this item, which has been previously cited as important to SME performance,

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was not found to be a factor contributing to SME performance because the firms were not in operation during the period of study.

Therefore, finance became a less important factor in explaining the performance of these SMEs. These findings indicate that Ghanaian SMEs should be able to perform better if they have a greater ability to access finance.

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CHAPTER FOUR

INVESTMENT READINESS AND ACCESS TO FINANCE

Introduction

This chapter covers literature related to the factors influencing access to finance of which the supply-side factors and demand-side factors of SME finance are discussed. The chapter also reviews literature on the three dimensions of investment readiness and how they impact on access to finance. Empirical evidence of the relationship between the investment readiness variables on access to finance and performance is also reviewed. The conceptual framework for the study is further discussed in this chapter.

Factors influencing access to finance

Bhaird and Lucey (2006) stated that a number of theoretical and empirical studies have focused on the concept of the finance gap in explaining the constrained access to finance faced by SMEs. This finance gap has two distinct components: supply and demand.

Supply-side factors

There has been a long-standing debate in countries such as the United Kingdom, Canada, and countries in the European Union about the finance gap in SMEs. The main argument centres on deficiencies in the supply of finance to SMEs. The supply-side argument contends that SMEs face difficulties in accessing funds, either because funds are unavailable to them or the cost of the available funds is higher than for larger businesses (Holmes et al., 2003). SMEs have limited access to finance since, unlike large firms, they generally

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do not have access to capital markets. They are not attractive to other equity providers such as angels and venture capitalists either since they rarely have good prospects for management or good financial information.

They have to pay higher costs associated with debt such as application fees, administration and monitoring fees, and higher interest costs than their larger counterparts. This is due to the high risks associated with loans and high operational costs that banks face in providing loans to SMEs (Coleman & Cohn, 2000; Fraser, 2005; Kon & Storey, 2003). It is apparent that there are some differences between the large and the small businesses in terms of the cost of lending. What is not clear though is what causes this differential. Some studies have argued that the cost of establishing and maintaining smaller loans is higher than the larger ones (Johns, Dunlop, & Sheehan, 1989; Levenson, 1962). Other studies attribute this to a premium on what is thought to be a risky sector (Binks & Ennew 1992; Cowling & Sugden, 1995; Keasy & Watson, 1993).

According to Lattimore et al. (1998), due to the higher default risks and assessment and administration costs involved in lending to small firms, more restrictive conditions are applied to small firms in order to reduce default risk. Gibson (2002) and the Australia Industry Commission (1991) argued that the higher cost of debt for SMEs is not a surprise. This is because the cost of a loan application is generally related to the size of the loan: the larger the loan amount, the lower the average loan application cost. Since the loan size for small firms is normally smaller than for larger firms, the average application cost for smaller firms is most often higher than for larger firms. SMEs face

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high interest costs largely due to the perception on the part of financial providers that they pose a higher risk than their larger counterparts.

The main causes of such risk are managerial incapability and unreliable financial information. These are important criteria in the banks appraisal of loan applications from SMEs (Amonoo, Asmah, & Acquah, 2003; Coleman & Cohn, 2000). It is, however, recognised that exploitation of highly profitable opportunities by SMEs could be accelerated only if they had greater access to external financing. Governments in many countries such as the United Kingdom, Canada, Australia, and Ghana have introduced a portfolio of policies to increase the supply of funds to SMEs. In the United Kingdom, several schemes such as tax incentives, the Loan Guarantee Scheme, the Business Expansion Scheme, the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) have been developed to reduce biases in the size, stage, and geographical distribution of investment activity among financial providers (Her Majesty's Treasury, 2001; Mason & Harrison, 2001).

In Canada, the Capital Pool Company program for Canadian small business was implemented to close the equity gap by allowing small firms direct access to the stock market (Carpentier & Suret, 2006). In Ghana, as part of efforts to minimise credit constraints, governments have sponsored a lot of programmes funded through banking and non-banking institutions. Some of the policies to promote the development of SMEs are the establishment of NBSSI, Empretec Ghana Foundation, District Assemblies – Poverty alleviation Fund (PAF) and many more (Amonoo, Asmah, & Acquah, 2003). A relatively subdued global recovery means that inflation – which Ghana has been successful in reducing, is no longer a major concern. Inflation peaked at

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20 percent in June last year and dropped to 18 percent by October. The government plans to reduce inflation to 10 percent in the medium term, which is now 9.38 percent as at 2010 (Eyisi, 2010).

Sustained economic reforms, improvement in budget deficit and the new oil find have caused foreign investments to come back to Ghana creating jobs and increasing economic activity in the process. Foreign remittance by Ghanaians in the Diaspora is expected to gradually increase in 2010 and 2011 as the global economy recovers. This money, which has reduced the national budget deficit in the past, will also improve conditions on the demand side since it is a major source of income for individuals and households as well as a source of foreign capital (Eyisi, 2010).

Increase in the number of financial institutions has also brought about competitive interest rates into the banking sector especially with the prime rate reducing to 13.5 percent (Eyisi, 2010). Despite financial sector reform, the strengthening of banking capabilities, and the introduction of numerous financial instruments such as the mechanisation of the Ghana Stock Exchange, venture capital fund for SMEs and business assistance funds, access to finance continues to pose a major hindrance to the performance of SMEs in Ghana (Eyisi, 2010; Steel &Webster, 1992). This is because these credit programmes have done little to increase SME access to financial capital. Instead, they inhibit the development of sustainable financial institutions and often foster a non-repayment culture among SMEs (Hallberg, 2000).

The creative destruction theory suggests that the new products, new methods of production and new markets that capitalist enterprises create erode the profits and positions of old and inefficient firms. In other words, the

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market has to clean itself by taking resources away from inefficient firms, and reallocating resources to more efficient firms. Government intervention, where not appropriate, takes resources away from high potential firms, and provides resources to firms that do not generate much benefit to the long-term growth of the economy (Foster & Kaplan, 2001; Schumpeter, 1975). For effective operation of the market, governments must intervene only where there are genuine market failures. In relation to the finance gap, this requires deregulating the financial market to increase the supply of funds to all sectors of the economy including SMEs (Lattimore et al., 1998). An increase in the supply of funds relative to demand should encourage financial institutions to design appropriate instruments in their pursuit of the SME market.

Direct intervention that increases the supply of funds to the SME sector at lower than the real cost will distract market operations and cause inefficient firms to persevere. This argument is supported by the Canadian experience of implementing the Capital Pool Company programme for Canadian small businesses (Carpentier & Suret, 2006). This programme was developed to close the equity gap by allowing small firms direct access to the stock market. However, this programme attracted mainly low quality firms. The vast majority of companies which took advantage of the programme showed poor operating performance in the years following listing (Carpentier & Suret, 2006).

Addressing only supply-side factors by increasing finance available to small firms cannot solve the problem of the finance gap (Sarapaivanich & Kotey, 2006; Sevilla & Soonthornthada, 2000). It interferes with the free operation of the financial market, and this could be counter-productive to the

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performance of SMEs. It disrupts the signalling effect of incentives on productive SMEs activities. Instead, the SME sector will be well served by programmes that focus on demand-side factors and improve the investment readiness of SMEs (Mason & Harrison, 2001; Southon & West, 2006).

Demand-side factors

Towards the end of 2000, it was recognised that governments' attempts to bridge the financial gap of SMEs had not been successful. Researchers therefore sought to examine factors associated with the demand for finance. In general, it is suggested that the government's role should be limited to increasing the number of financial institutions that find lending to SMEs to be profitable and therefore sustainable. The government should focus on reducing the risks and transaction costs associated with this business sector, strengthening the capacity of financial institutions to serve smaller clients and increasing competitive pressure in financial markets (Asian Productivity Organisation, 2002a; Hallberg, 2000; Sevilla & Soonthornthada, 2000). Moreover, government interventions should concentrate on those parts of the financial market that are left out by the private sector, such as seed capital. This capital is provided to develop a concept, create the initial product, and carry out the first marketing efforts. The private sector is not very interested in providing such capital as firms that need seed capital are usually very young, around one year old, and have no products or services ready for commercial sale.

According to the demand-side argument, in order to successfully access finance, whether equity, loans or other forms of finance, a firm has to

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be investment-ready (Her Majesty's Treasury, 2001; Harding & Cowling, 2006; Mason & Harrison, 2001; Southon & West, 2006). Investment readiness is defined by Mill Consultancy (2006) as the ability to provide "sufficient information, credibility and trust to an investor to motivate investors to invest in a proposition". That is, a firm has to be sufficiently attractive to the providers of funds (investment-ready) in order to take advantage of the pool of finance that is currently available. According to Harding and Cowling (2006), SMEs still face difficulties in accessing external finance because they are not always investment-ready.

Investment readiness comprises three dimensions: owner/manager readiness, business readiness, and information readiness (Her Majesty's Treasury, 2001; Harding & Cowling, 2006; Mason & Harrison, 2001; Southon & West, 2006). Owner/manager readiness is the owner/manager's characteristic that is attractive to the providers of funds. Business readiness refers to the characteristic of business that makes financial providers feel confident about and willing to invest in such business. Information readiness is the ability to provide information to attract financial providers. These three components of investment readiness are summarised in Table 5 and discussed in depth in the following sections.

Table 5: Three dimensions of investment readiness

Investment readiness	Explanation	Literature
Owner/manager readiness	Characteristics of owners/managers that are attractive to financial providers	- Harding and Cowling (2006) -Confederation of British Industry (2001) - Her Majesty's Treasury (2001)

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Table 5 continued

Investment readiness	Explanation	Literature
		-Kotey and Meredith (1997) - Mason and Rogers (1997) - Marsden Jacob Associates (1995)
Business readiness	Characteristics of the firm itself that enable it to access finance	- Bhaird and Lucey (2006) -Esperanca, Gama, and Gulamhussen (2003) - Feeney, Haines, and Riding (1999)
Information readiness	Ability to provide information to attract financial providers	- Her Majesty's Treasury (2001) - Mason and Harrison (2001) - Feeney, Haines, and Riding (1999) - Mason and Rogers (1997) - Marsden Jacob Associates (1995)

Source: Kotey et al. (1997)

Owner/manager readiness

Owner/manager readiness in this study refers to owners/managers' characteristics that are attractive to financial providers and that motivate them to invest in business. The ability of SMEs to access finance is closely linked to owners/managers' characteristics that is the requisite characteristic of the

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owner of the business. Kotey (1999) noted that owners/managers face difficulties in accessing funds because they are reluctant to use funds even when suitable finance is available. A number of owners/managers see the need to look for external finance as a sign of weakness (Confederation of British Industry, 2001). In spite of the availability of capital, some owners/managers are unwilling to capitalise their business mainly because they feel they have no need to expand their operations or they have enough self-funding (Ferraro, 2003). The Confederation of British Industry (2001) and Connell (1994) indicated that lack of success in obtaining finance by SMEs was due to their owners/managers' reluctance to dilute control through external finance.

Mason and Harrison (2001) suggested that helping owners/managers to understand the different forms of financing available to them should lead to an increase in the flow of investment opportunities (Mason & Harrison, 2001). According to Keats and Bracker (1988), SME performance is influenced by multiple constructs, which have been labelled as "Entrepreneurial Intensity" (entrepreneurial characteristics and behaviours which differentiate entrepreneurs from other individuals). Larson and Clute (1979) examined the role of various owner and firm characteristics to explain business failures. The numerous characteristics shared by failed firms are directly related to personal decision-based characteristics of the owner (inflexibility, emphasis on technical skills), managerial deficiencies (inadequate management skills and appropriate managerial training) and financial shortcomings (no accounting background, cash flow analysis, financial records). Accordingly, prior experience, education, age and sex (gender) are four main characteristics of owners/managers that have been identified in the literature as influencing

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access to finance (Cooper, 1998; Crook, 1997; Keats & Bracker, 1988; Larson & Clute, 1979; Sandberg & Hofer, 1987).

Business readiness

Business readiness in this context refers to the characteristics of the firm itself that enable the firm to access finance. It is widely suggested that SMEs face more difficulty in accessing finance since they are perceived as posing a higher risk than their larger firms (Feeney, Haines, & Riding, 1999; Vyakarnam & Jacobs, 1991). Due to such risk, financial providers are usually unwilling to provide funds to SMEs without rigorous evidence to show that they will be able to repay the money. Therefore, it is anticipated that SME access to finance will be improved if they are able to meet the financial provider's requirements (Berger & Udell, 1998; Esperanca, Gama, & Gulamhussen, 2003). The two factors that financial providers normally use to examine the ability of the firm to repay are financial leverage ratio (the relative amount of debt that firms employ in their financial structure) and firm size (Esperanca, Gama, & Gulamhussen, 2003).

Information readiness

Information readiness is the ability to provide information intended to attract financial providers. Marsden Jacob Associates (1995) highlighted that a lack of investment readiness is primarily due to information failure. SMEs face difficulty in accessing finance because they do not have the track record that potential investors can rely on in making their investment decisions (Marsden Jacob Associates, 1995; Mason & Rogers, 1997; Southon & West,

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2006). Moreover, they do not know how to present themselves as attractive investment opportunities (Harding & Cowling, 2006; Mason & Harrison, 2000).

Financial information allows financial providers to appraise business performance and thus reduce difficulties in accessing finance. This is because financial information enables financial providers to assess SMEs' ability to remain solvent, grow, and meet financial providers' requirements (Batten & Hettihewa, 1999; Berger & Udell, 1998; KPMG Special Services & EIM Business & Policy Research in the Netherlands, European Network for SME Research, & Intomart, 2003). Financial information reduces information asymmetry by allowing financial providers to assess SME health and make sound decisions. This in turn reduces the risk of investment in SMEs. Therefore, information readiness in this study focuses on financial information, as it is crucial for attracting financial providers to invest in SMEs. The types of financial information are covered in the section below.

Types of financial information

Financial information has been discussed in various ways by a range of scholars. According to Carrington and Howitt (1983) and O'Regan (2001), financial information provides a picture of the financial condition of a business and is presented in various forms, such as Financial Position, Income Statement, Cash Flow Statement, and budgets. The statement of income summarises the results of SMEs' operating activities, i.e. revenues, expenses, and net income (or net loss), for a specific time period. It shows the relationship between the decisions that owners/managers make during this

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period and the results of those decisions (Cunningham, Nikolai, & Bazley, 2000).

The statement of financial position shows SMEs' financial position on a specific date. It is a snapshot of the firm's assets and the sources of funding for these assets at a point in time (English, 2001; Ingram et al., 1999). Budgeting provides an indication of what the business intends to do, and allows financial providers to uncover potential problems. A budget quantifies the resources that SMEs expect to use for their operating activities. It also creates benchmarks for evaluating SME performance by comparing the results of operating activities with the related budget amounts (Cunningham, Nikolai, & Bazley, 2000).

Financial information also takes the form of financial indicators, such as return on investment, return on assets, current ratio, and inventory turnover. These financial indicators are useful for measuring business health. They show the firm's strengths and weaknesses in terms of liquidity, profitability, and financial position (Barsley & Kleiner, 1990). Carrington and Howitt (1983) described financial information as information that represents some real phenomena in monetary terms. This is consistent with the definition by Pearson Education (2005, p. 3), that financial information is "information which may be reported in money terms". Ratnatunga, Romano and Lourens (1993), Ingram et al. (1999) described financial information as the provision of information in financial terms which helps in making decisions about organisations. From these definitions, it can be concluded that an important aspect of financial information is that it provides useful information in monetary terms for business decision-making.

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Financial information can be classified into statutory and non-statutory forms (English, 2001). Statutory financial information is information required by the government depending on the form of the business organisation. For example, sole proprietorships are not generally required to provide business financial information but only information on their personal income. On the other hand, registered partnerships and companies are generally required to prepare statutory information on their statement of income and financial position (Cunningham, Nikolai, & Bazley, 2000). Non-statutory financial information is broadly classified apart from statutory financial information, and usually includes cash flow statement, forecasting financial statements, and financial ratios, i.e. assets turnover, interest cover, and inventory turnover (Holmes & Nicholls, 1989). Financial information, whether statutory or non-statutory, must have certain characteristics in order to provide information useful for business decisions. The characteristics of financial information are presented below.

Characteristics of financial information

To be useful for decision-making, financial information must possess certain characteristics (Knapp & Kemp, 2003). Quality is an important characteristic of financial information. This is because quality ensures that financial information is reliable and useful. High-quality financial information allows owners/managers to appraise the financial health of their business and to answer questions such as, how quickly inventory is turning over, how much the firm owes, and when debts are due (Cunningham, Nikolai, & Bazley, 2000; Xu et al., 2003). In addition, quality financial information also enables

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smaller firms to detect problems before these become threats to their viability. Problem detection and correction are very important in the day-to-day management and operation of an enterprise (English, 2001). Quality is defined in several forms such as accuracy, relevance, reliability and timeliness.

Previous studies have focused primarily on accuracy as a key characteristic of financial information quality (Huang, Lee, & Wang, 1999; Wand & Wang, 1996). Accuracy is always defined in several terms. For example, Wang, Storey and Firth (1995) identified that, in accounting and auditing, accuracy is defined in terms of the frequency, size, and distribution of errors in information. However, Xu et al (2003) indicated that information quality is beyond accuracy, and that quality should be identified in multiple dimensions. Several dimensions of information quality have been identified, such as relevance, reliability, completeness, consistency, timeliness and flexibility (Wand & Wang, 1996; Xu et al., 2003). Nevertheless, Ballou et al. (1998) and Wand and Wang (1996) quoted in Xu et al. (2003 p. 461) suggest that four information quality dimensions are commonly identified:

1. Accuracy, which occurs when the recorded value is in conformity with the actual value;
2. Timeliness, which occurs when the recorded value is not out of date;
3. Completeness, which occurs when all values for a certain variable are recorded; and
4. Consistency, which occurs when the representation of the information values is the same in all cases.

The Statements of Accounting Concepts No.3 (ISA3) identifies relevance and reliability as the primary qualitative characteristics of financial

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information necessary for achieving the objectives of general purpose financial reporting. General purpose financial reporting is a means of meeting all the information needs of users who are unable to demand the preparation of specific financial information. Relevance is defined as "quality of financial information which exists when that information influences decisions by users about the allocation of scare resources". Reliability refers to the "quality of financial information which exists when that information can be depended upon to represent faithfully and without bias" (Knapp & Kemp, 2003, pp. 23, 24). Studies have indicated that financial information has to be accurate, timely, complete and consistent if it is to be considered relevant and reliable (Ballou et al., 1998; Wand & Wang, 1996).

Hughes (2004) and Palmer (1994) indicated that timely and accurate financial information is important to owners/managers in making effective decisions. McMahon (2001) suggested that timely and relevant financial information is needed to monitor the firm's financial position and performance. Likewise, Wood (1989) observed that a key to the management decision-making process is the keeping of accurate financial information. From the above discussion, quality is clearly central to the characteristics of effective financial information. Having presented the types and characteristics of financial information, there is a need to understand how SMEs prepare and use this information to support their decision-making since these influence their ability to access finance and the performance of their businesses (Palmer, 1994; Peacock, 2000; Potts, 1977; Wichmann, 1983).

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Financial information practice in SMEs

The practical issues involved in preparing and using quality financial information in SMEs have been investigated in a number of studies (Gibson, 1992; Gibson, 1993; McMahon, 1998). This section provides a broad overview of existing practices in a number of countries, followed by several frameworks used to explain the financial information practices of SMEs.

Financial information practices: Evidence from other countries

The literature suggests that SMEs generally have no systematic way of generating financial information. SME financial information is mainly prepared by external professional accountants in order to meet statutory obligations, and it normally comprises the statement of income and statement of financial position (Cameron, 1993). Financial information is usually neither adequate nor timely, and is likely to be out-of-date by the time it is ready to be used (McMahon, 1999b; Storey et al., 1989). A number of propositions have been made in an attempt to explain this practice among SMEs. Firstly, owners/managers of SMEs have limited financial and technical capabilities, and are so involved in day-to-day business matters that the preparation of financial information is often neglected (McMahon, 1999a).

Secondly, SMEs abandon the preparation of financial information because most are sole traders who are not obliged to submit audited financial accounts to the Registrar of Companies within a specific time period (Storey et al., 1989). Finally, there is a cost involved in producing this information. SMEs face higher costs of preparing financial information than larger firms, since they cannot afford to invest in financial information systems (Holmes et

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al., 2003). Holmes (1986) showed that, although owners/managers generally view financial information as useful for decision-making, very few use financial information in their decision-making. Conversely, McMahon (1999) revealed very high levels of preparation and use of financial information by owners/managers (more than 79 percent). However, it can be seen in Table 6 that this high level is associated with only statutory financial information, that is, Financial Position and Statement of Income.

Table 6: Financial information practices among SMEs in Australia

Financial Information	Financial Information Practices				
	Available and used %	Available, not used %	Not available %	Not applicable %	Not answered %
Financial Position	84.9	5.9	4.7	0.8	3.8
Income Statement	87.9	5.3	3.0	0.8	3.0
Cash Flow Statement	79.6	9.5	4.3	0.8	5.8

Source: McMahon (1999a, p. 41)

Based on interviews with 36 small retail owners/managers in the United States, Palmer's (1994) study on the financial information use of small independent retailers showed that only statutory financial information (statement of income and financial position) has a high level of preparation and usage. The level of preparation and usage of other financial information, such as cash flow and forecasting financial statements, is often very low. Other financial information is compiled and used only by owners/managers

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who are very familiar with their financial information and keep their financial information in-house.

Moreover, Palmer (1994) found that the usage rate of financial information for decision-making varies greatly from one owner/manager to another. Some owners/managers only glance at the financial reports, and only a few do thorough monthly comparisons. Many (89%) SME respondents indicated they had no managerial purpose for preparing financial statements. Furthermore, a number of owners/managers said they kept relevant information in their minds instead of writing it down or recording it in a financial information system.

Table 7: Preparation and usage of financial statements

Financial Statements	Prepared (%)	Uses (%)
Cheque Book	100	100
Profit/Loss Statement	100	92
Financial Position	86	75
Cash Flow	22	19
Common Size Statement of Income	39	39
Common Size Financial Position	17	17
Forecasting Financial Statement	36	36

Source: Palmer (1994, p. 70)

In accordance with the findings of McMahon (1999) and Palmer (1994), Dart, Ng and Sarkar (1990) observed a significant awareness and usage of financial information among SMEs in Singapore. Results from a questionnaire demonstrated that all Singaporean SMEs were using income statement and statement of financial position. These findings suggest that

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Singaporean SMEs realise that financial information is critical to the management of their businesses. Nevertheless, their awareness and usage of more sophisticated information resources, such as product costing, projected income statement, and variance analysis, significantly decreased in comparison with those for statutory requirements.

Walton (2000) stated that owners of small, medium, and micro enterprises (SMMEs) in developing countries typically have no business training and keep no records. Many of them consider financial information something of a haphazard patchwork because they equate it with taxation and feel it is something to be avoided. It appears from the above discussion that there are several kinds of financial information, which may be generated by SMEs. However, statutory financial information is usually prepared annually for tax purposes (English, 1992; Holmes & Nicholls, 1988; Palmer, 1994; Ratnatunga & Dixon, 1993). Furthermore, the level of use and preparation of non-statutory financial information is quite low among SMEs because they lack understanding of the usefulness of this type of financial information. Additionally, the quality of financial information is low for SMEs.

Frameworks for SME financial information practices

The traditional framework and the alternative framework are the two main frameworks that are used to explain financial information practices in SMEs. These frameworks point to distinctly different possibilities for financial information practices amongst SMEs (Gibson, 1992; McMahon, 1998). Each of these frameworks is discussed below.

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The Traditional framework

The traditional or mainstream neoclassical framework is based on the maximising assumptions of mainstream neoclassical economics. It assumes that the owner/manager is a rational economic decision-maker. Thus, the owner/manager must have access to complete information, including financial information, in order to facilitate the evaluation of available options and the making of optimum decisions by choosing the action with the maximum expected utility (Gibson, 1992). In accordance with this view, McMahon (1986) explained that owners/managers of small firms must have access to financial information in order to ensure that the most efficient decisions are made. Nevertheless, studies of small firms generally indicate contradictory findings. That is, "owners/managers rarely have ready access to all of the information necessary to conduct the many aspects of their business operations effectively" (Holmes & Nicholls, 1989, p. 143).

Moreover, it appears that access to financial information is not important in the decision-making process of owners/managers (Holmes & Nicholls, 1989; Sweeting, 1991). This is because owners/managers do not understand the benefits of financial information, and they prepare this information simply for tax purposes (Walton, 2000). Because the traditional framework is based on economic rationalist decision-making assumptions, it is likely to focus on one objective: profit maximisation or monetary reward (Gibson, 1993). However, the ideal assumptions of this framework rarely exist in the small business world.

It appears that SMEs pursue a wide variety of goals, and in many cases monetary reward is not the sole or primary goal of small firms (Barsley &

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Kleiner, 1990; Jarvis et al., 1996b; McMahon & Stanger, 1995). For example, they may pursue freedom, independence and a better lifestyle, and financial information is not adequate for assessing the extent to which these goals are accomplished. An alternative framework was thus developed to overcome the weaknesses of the traditional framework in explaining financial information practices of SMEs (Gibson, 1992; Gibson, 1993).

The Alternative framework

The alternative or Austrian framework espoused by the Austrian School of Economics foreshadows the likely financial information practices of SMEs in a less than perfect world. This framework is concerned with the internal use of general purpose financial reports by owners/managers (Gibson, 1992; Young, 1987). A justification for considering this alternative framework is put forward by Gibson (1992 p. 221), who stated:

> *Substantial relaxation of these assumptions (assumptions derived from mainstream neoclassical framework) is often necessary to provide plausible explanations for many observed practices such as the irregular use of financial information in small firm decision contexts. Rather than seeking to justify these departures within the extant framework, understanding may be better accommodated by adopting a different perspective.*

The Austrian framework is primarily concerned with the role of entrepreneurs in the economic market process, and focuses on the acquisition of knowledge that might guide action through experience rather than the

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attainment of financial information to support decision-making (Gibson, 1993). In this situation, financial information has little decision usefulness for owners/managers. Likewise, Storey et al. (1989) objected that financial information is likely to be of limited use since it provides historical data rather than data on current and future prospects. It is therefore only partially useful as an information source for owners/managers and other interested parties.

From the arguments above, it can be inferred that financial information appears to be useful only in evaluating the success of past decisions, and in determining the present position (McMahon, 1998). In this context, financial reports for tax purposes are more likely to be sufficient to satisfy the information needs of SME owners/managers. The Austrian perspective on financial information in SMEs is supported by Gibson and Wallschutzky (1992). The results of in-depth interviews with Australian owners/managers in Gibson and Wallschutzky's (1992) study showed that few SME owners/managers identify access to financial information as important when making decisions affecting growth and opportunity. Financial information is not normally used because it is not considered useful in making decisions. This information might be considered to have some utility for control decisions only.

McLaney (2000), on the other hand, argued that, whilst financial information is a record of past events, it is still worthwhile in providing guidelines for decisions about future actions and strategies. That is, financial information can help owners/managers detect existing problems, predict potential future difficulties, recommend solutions to existing problems, and suggest ways to avoid problems in the future. Similarly, Ratnatunga and

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Dixon (1993) stated that financial information is a stepping stone in aiding SMEs to avoid managerial problems, such as over- or under-stocking, and over-investment. Therefore, well prepared financial information provides a solid basis for good management which assists in making business decisions (Ratnatunga & Dixon, 1993; Schaper & Volery, 2004).

McMahon (1998) emphasised that owners/managers' decisions regarding financial information are complex, and not simply a dichotomous choice between two extreme positions. There are several ways in which SME financial information may be limited in practice. For instance, most SMEs prepare only statutory financial statements (Financial Position and Statement of Income), while only a few SMEs prepare other more sophisticated reports. Moreover, even if financial statements are prepared, they lack adequate detail and are not regular. This is either because owners/managers do not seek to be better informed of the financial consequences of their decisions, or because they believe that the costs of being better informed outweigh the benefits.

Several studies have attempted to investigate the crucial role of financial information in the operation of SMEs, and the need to improve their financial information practices because financial information has been recognised as a key factor influencing SME performance and access to finance (Lattimore et al., 1998; Palmer, 1994; Peacock, 2000; Potts, 1977; Schaper & Volery, 2004; Walton, 2000; Wichmann, 1983).

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Empirical evidence on investment readiness variables, access to finance and SME performance

Owners/managers' experience, access to finance, and SME performance

People with more work experience are expected to be successful entrepreneurs. More time on the job, whether as an employee or self-employed, allows more time to learn about the business environment, build important networks in this environment, and, therefore, enables access to more opportunities within the work environment (Parker, 2004). Most studies have shown that a wider portfolio of skills and relevant knowledge used to support the management and development of business are acquired from experience of owners/managers. There are three types of experience: general experience, industry experience, and entrepreneurship experience (Bosma et al., 2004; Larson & Clute, 1979).

General experience is owners/managers' experience in general, such as experience from education and experience as an employee. Industry experience refers to owners/managers' experience in the specific industry. Entrepreneurship experience is owners/managers' experience in ownership or activities relevant to business ownership, such as earlier experience in starting up a business and membership of an association for small business founders (Bosma et al., 2004). It has been widely established that there are links between these three types of owners/managers' experience, access to finance, and performance of SMEs. From literature, industry specific experience appears very important for entrepreneurial success. Many studies including Phillips (2002) and Agarwal et al. (2004) find that spin-off entrepreneurs are more likely to survive than other entrepreneurs.

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Owners/managers' experience and access to finance

A number of studies have reported that experience is one of the most important factors that financial providers look for in making an investment decision (Bukvic & Bartlett, 2003; Weitzel & Jonsson, 1989). This is because financial providers perceive that experienced owners/managers have more knowledge to support and manage their business and thus reduce the risk of their investment. As highlighted by Bukvic and Bartlett (2003) and Feeney, Haines, and Riding (1999), financial providers are turned off by owners/managers who lack experience. Owners/managers' experience allows them to develop a supportive network. This networking in turn assists owners/managers to access finance.

The crucial role of networking in facilitating access to finance was indicated in a study by Cron, Bruton, and Slocum (2006), who reported that SMEs with larger networks are more likely to have access to sources of information and finance. These networks could provide a source of information about how to access finance. As a result, owners/managers with greater experience in their business are more likely to have a better supportive network and the needed skills and knowledge, which in turn should increase their ability to access finance.

Owners/managers' experience and SME performance

Owners/managers' experience, notably gained through familiarity with the industry/market, leadership ability, and the ability to evaluate and handle risks, is a key factor determining business decisions. A number of studies have repeatedly reported the significance of the relationship between

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owners/managers' experience and business performance (Cron, Bruton, & Slocum, 2006; Fasci & Valdez, 1998; Silversides 2001; Sinha, 1996). In their study of owners of accounting practices of the American Institute for Certified Public Accountants, Fasci and Valdez (1998) indicated that owners/managers' work experience was strongly related to firm performance. In a related study, Watson (2002) explored the performance of female- and male-owned SMEs in Australia. These businesses were studied by examining output measures [sales and profit] while relating them to appropriate input measures [total assets and total equity]. The businesses were compared on their return on equity, return on assets, and total income to total assets.

Cron, Bruton and Slocum (2006) showed that there is a significant relationship between managerial experience and firms' performance. They suggested that such experience allows owners/managers to build a well-endowed network, which is important to the success of the firm. Saffu et al. (2006) and Cooper, Gimeno-Gascon and Woo (1994) contended that entrepreneurial experience is conducive to firms' performance. However, no relationship between entrepreneurial experience and performance was found in the study of Saffu and Manu (2004) in the Ghanaian context. They explained that this was not a surprise finding given that 81.5 percent of the respondents had no previous entrepreneurial experience and the current business was their first venture.

Bosma et al. (2004) provided evidence that owners/managers' experience in general, and specifically in industry and in entrepreneurship, have significant roles in enhancing firm performance. However, they further indicated that industry experience has a more significant influence on firm

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performance than general and entrepreneurial experience. This is because such experience provides the most relevant knowledge and skills to owners/managers. Thus, it can be inferred that experience is an important factor in determining the performance of SMEs in Ghana. From the arguments advanced, it is expected that owners/managers' with more experience are likely to be able to access finance since experience provides the knowledge and skills needed to access finance and also access to finance is expected to have a positive influence on performance of SMEs. Thus, if experience influences access to finance, and access to finance enhances performance, then one could speculate that experience will influence access to finance and ultimately performance.

Education, access to finance, and SME performance

Some of the knowledge useful to owners/managers in running their businesses can be obtained from formal education. A number of empirical studies have examined the effect of education on access to finance and performance (Coleman, 2004; Kangasharju & Pekkala, 2002; Saffu et al., 2006). Higher levels of education provide higher levels of human capital for the firm. The educational achievement of owners/managers is associated with their persistence, motivation, and self-discipline (Bird, Sapp, & Lee, 2001). These qualities, in turn, might be expected to increase SMEs' ability to access finance and enhance their performance.

The role of education for start-up and performance is ambiguous. On the one hand, more educated people might be better informed about business opportunities and select themselves into occupations or industries where

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entrepreneurship is more common. On the other hand, however, the skills that make good entrepreneurs are unlikely to be the same as those embodied in formal qualifications (Parker, 2004). The significance of education is therefore ambiguous but, nevertheless, assumed to be dependent on the industry. Both Wagner (2002) and Hessels et al. (2009) find education not to have an effect on performance.

Education and access to finance

There is recognition in the small business literature of the significance of owners/managers' education in the firm's ability to access finance. The Confederation of British Industry (2001), Honig (1998), West and Noel (2009) showed that education assists SMEs in accessing finance since it provides owners/managers with essential knowledge about where sources of finance are and how to access them. Aryeetey et al. (1994), Storey (1994), indicated that, while educational opportunities are available for owners/managers, not many owners/managers possess the requisite financial management skills normally derived from education.

Owners/managers need these skills to facilitate not only firm management and financial planning but also access to finance. Coleman (2004), however, could not find any significant difference in access to finance between the United States owners/managers with higher education levels and those with lower education levels. This is because they did not request information on the owners/managers' areas of specialisation in their education (such as business, education and engineering). It is possible that different types of education could affect firms' ability to access finance. Business

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owner-managers, who have not obtained credit from traditional sources such as commercial banks, may have been un-creditworthy (Levenson & Willard, 2000) or may have lacked banking experience or have low level of education (Carter & Allen, 1997).

Jamkajornkeat (2005) argued that, even though not all relevant knowledge can be acquired from formal education, most of the skills essential for accessing finance are indeed gained from such education. As knowledge evolves, owners/managers need to have a certain level of education in order to gain basic knowledge related to accessing finance.

Education and SME performance

The influence of education on performance lies in the fact that knowledge gained enhances the managerial capacity to develop a superior business in general or an industry-specific strategy (Honig, 1998; Kim et al., 2006; West & Noel, 2009). Consequently, resources can be acquired more efficiently, costs are reduced, and revenues are increased. In short, performance improves. Education is presumably related to knowledge and skills, motivation, self-confidence, problem solving ability, commitment, and discipline (Bird, Sapp, & Lee, 2001). Higher education could be expected to increase owners/managers' ability to cope with problems and seize opportunities that are important to the growth of SMEs.

According to Parker (2004), owners/managers' performance is often a function of business skills in general and relevant entrepreneurship education in particular. Bosma et al. (2004), Bates (1997) and Bates (1995) all emphasised that highly educated owners/managers are more likely to perform

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better than their lower-educated counterparts. Fasci and Valdez (1998) on the other hand, found that education does not have an influence on performance. They suggested that this may result from the fact that all respondents in their study had a base educational level since all had obtained CPA certification. Yusuf and Saffu (2005) did not find a significant relationship between education and performance in their study of Ghanaian owners/managers. This is because, in contrast to the situation in professional sectors such as medicine, accounting, law, engineering, and consulting, higher education is not a necessary requirement or a common characteristic of owners/managers in the trading sector.

Blackwood and Mowl (2000) raised the issue that the area of owners/managers' education may not be related to the type of business in which they are involved. In this case, education is not likely to have a significant effect on performance. These mixed findings is explained by Thibault (2001), who indicated that owners/managers vary greatly in terms of education level. Some successful owners/managers are highly educated whereas others have yet to complete their high school diplomas. They suggest that success may depend on the individual himself/herself and the way he or she manages the business.

Nevertheless, a number of researchers have found a positive link between the educational level of owners/managers and firm performance. In a study of Finnish entrepreneurs, Kangasharju and Pekkala (2002) found that more highly educated owners/managers' SMEs have higher growth rates. A study by Pena (2002) of Spanish firms found that the education level of owners/managers has a positive effect on firm performance. Coleman (2004)

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and Papadaki and Chami (2002) also reported the same result in a study of United States and Canadian firms respectively. An indirect relationship between education and performance via access to finance is also expected. This is because the education level of owners/managers is expected to enhance their ability to access finance since knowledge gained from formal education provides the skills needed to access finance.

Moreover, it is anticipated that access to finance will improve the performance of SMEs. Therefore, if education level influences access to finance, and access to finance enhance performance, education level will influence access to finance and ultimately add to performance.

Age, access to finance and SME performance

The importance of owners/managers' demographic characteristics such as age has been emphasised in the small business literature. This is because age influences owners/managers' attitudes towards risk, access to finance, and firm performance. Individuals in mid-career are found to be more likely to found a venture in general (Parker, 2004) while older individuals with previous entrepreneurial experience are less likely to do so (Metzger, 2008; Wagner, 2002; Stam et al., 2008).

Empirical research repeatedly found that people in the age group 35-44 years are the most likely to start a mainstream enterprise (Cowling, 2000; Reynolds, Bygrave, Autio, Cox, & Hay, 2002). The probability of being or becoming an entrepreneur reveals an inverted U-shape relationship between age and entrepreneurship: the likelihood of being involved in entrepreneurship increases up to a certain age (somewhere around the forties or early fifties)

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and decrease thereafter (Bates, 1995; Bergmann & Sternberg, 2007). Theoretical arguments for this pattern include that older people are more likely to have experience, access to capital, and personal financial resources. At the same time older people may lack the energy and commitment of younger people (Parker, 2004). These associations are discussed in the sections below.

Age and access to finance

Coleman (2004) proposed that owners/managers' age may reflect their attitude towards risk and affect their success in accessing finance. Following Davidson's (1991) argument, younger owners/managers are more willing to take on risks in order to grow their business. Older individuals who continue to be owners/managers of small firms are more likely to have realised their initial aspirations. While younger individuals have more motivation to expand their businesses they may have fewer financial resources and fewer networks. Low and Mazzarol (2006) and Kabacoff and Stoffey (2001) indicated that younger owners/managers are more likely to be energetic, self-confident, and risk-taking than older owners/managers.

It is therefore likely that younger owners/managers between the ages of 35-44 will have a better attitude towards external finance, better understand the expectations and requirements of financial providers, and know more about how to make their business proposals into attractive investment opportunities. Coleman (2004) argued that, since younger owners/managers are less risk-averse than older owners/managers, younger owners/managers are more willing to accept the risks associated with external finance. In contrast, Cron, Bruton and Slocum (2006) noted that older owners/managers

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have better networks of support than younger owners/managers. These networks provide older owners/managers with easier access to finance.

In Ghana, younger owners/managers generally have higher educational levels than older owners/managers due to improvements in the education system over time. During the past decades, the government has concentrated on the development of education as it is believed that education is very important to individual development and will therefore contribute to the social and economic development of the country (West & Noel, 2009) .

This implies that younger owners/managers of SMEs in Ghana have higher educational levels than older owners/managers. It is suggested in the hypothesis that owners/managers with higher educational levels could be expected to have more knowledge and information capable of assisting them in accessing finance (Jamkajornkeat, 2005). Therefore, younger owners/managers of SMEs in Ghana will have a higher ability to access finance than their older counterparts since they have higher educational levels.

Age and SME performance

The relationship between owners/managers' age and business performance has been captured through empirical research. Sinha (1996) showed that younger owners/managers have better performance than older owners/managers. In contrast, Heck, Rowe, and Owen (1995) noted that owners/managers who are older tend to have a greater degree of understanding of the principles of running a business. They have more experience in their own businesses. As a result, older owners/managers are likely to perform better than their younger counterparts. Thibault (2001) and Williams (1984)

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advanced a similar view to the effect that business performance is better for businesses whose owners/managers are older.

However, no evidence was found in the study of Bosma et al. (2004) and Papadaki and Chami (2002) that owners/managers' age affects performance. Although there are mixed findings related to the influence of owners/managers' age on performance, the empirical evidence suggests that younger owners/managers tend to perform better than their older counterparts, as they are more willing to take on risks in order to grow their businesses (Davidson, 1991; Sinha, 1996). It can thus be expected that younger owners/managers in Ghana will perform better than their older counterparts.

Based on this discussion, it is expected that younger owners/managers of SMEs will have a higher ability to access finance than their older counterparts since they have more of the knowledge and skills needed to access finance through their higher educational levels. Access to finance is also expected to enhance the performance of SMEs. Thus, if younger owners/managers have a higher ability to access finance, and if access to finance enhances performance, it could be expected that younger owners/managers will have a higher ability to access finance, and thus higher performance.

Sex, access to finance and SME performance

Sex and gender are used interchangeably in explaining its access to finance and SME performance. Studies have shown that an important factor that determines whether one can access finance, hence performance is sex. Two feminist theories offer theoretical perspectives regarding gender-related

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differences in access to finance and performance: the liberal feminist theory and the social feminist theory. The liberal feminist theory does not recognise any inherent differences between men and women; it seeks individualistic equality of men and women through political and legal reform without altering the structure of society. The implicit assumption of this theory is that men and women will achieve equal performance if given the same opportunities (Eisenstein, 1984; Porter, 1997).

It argues that the disparity between sex is attributed to a wide variety of factors associated with society's attitudes towards men and women (Hooks, 2000). These attitudes are based on historical and institutional factors in society which lead men to act differently from women (Beasley, 1999; Cron, Bruton, & Slocum, 2006; Schmidt & Parker, 2003). The social feminist theory, on the other hand, argues that there are innate differences between males and females, which condition them to differ in many characteristics. These differences lead men to take different actions from women in similar situations. It does not mean that either the male or the female perspective or orientation is superior, but that the differences between the genders are considered to be pervasive and often subtle in nature (Buttner, 2001; Fletcher, 1998).

Both streams of feminist theory imply one may expect to find gender differences in various aspects of entrepreneurship, including access to finance and their performance. There is an alternative theoretical perspective that contradicts the feminist theory: the rational economic model (Ferber & Nelson, 1993). This theory assumes that individuals are economically rational. They are rational, systematic, and logical in accessing alternative economic

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choices, and seek to maximise the economic benefit to themselves or the firm. Therefore, they will make their choices based on the benefits gained from the transaction and not the sex of the service provider (Ferber & Nelson, 1993).

Simon, Fagley, and Halleran (2004) and Levin et al. (2002), however, argued that humans are not always rational. The same person may react differently to the same situation at different times, or different people may respond to the same situation in different ways. Although empirical evidence on the effect of sex on access to finance and performance has been found, it has not provided clear insights into whether feminist theory or the rational economic model is more valid (Cron, Bruton, & Slocum, 2006). As far as gender is concerned, large-scale survey research shows that in all high income countries a higher proportion of men than women is engaged in entrepreneurship, despite an increase of female participation in entrepreneurship in many of these countries (Minniti, Arenius, & Langowitz, 2005; Reynolds et al., 2002).

Socio-economic differences between female and male entrepreneurs in terms of age, household income, employment status, education, and country specific economic factors are not able to explain the difference in entrepreneurial engagement (Minniti & Nardone, 2007). Instead, it is suggested that the difference between male and female participation in entrepreneurship is largely attributable to perceptual or 'subjective' differences: women are less likely to feel qualified, have a greater fear of failure and judge opportunities more pessimistically. Previous findings on the relationships among gender, access to finance, and performance are discussed in the sections below.

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Sex and access to finance

It has been proposed in different studies that there is a gender effect on access to finance for SMEs. There is some evidence that financial providers impose more stringent requirements on female owners/managers in regard to collateral for loans, and thus limit their ability to access finance (Saffu & Manu, 2004; Shaw et al., 2006). Saffu and Manu (2004) indicated that Ghanaian female owners/managers are hardest hit by this lack of access to credit because of banks' insistence on landed property as collateral. As the control of land is generally in male hands, it is difficult for female owners/managers to access such finance. Belcourt, Burke, and Lee-Gosselin (1991) noted that female owners/managers are treated less respectfully by financial providers than male business owners/managers. This hampers the ability of female owners/managers to access finance.

In a similar vein, Carter et al. (2003) suggested that, even though the availability of equity funds in the United States has increased, female owners/managers have not yet accessed the large pool of equity capital currently available in the country. They argued that female owners/managers are less likely to secure outside equity than their male counterparts because of their lower educational level. Kitakule, Limburg and Weisert (2006) and Loscocco et al. (1991) revealed that women's relative lack of access to finance limits the types of businesses they can operate to those that require less start-up finance, such as businesses in the service sector.

In contrast to the above findings, Tigges and Green (1994), Fabowale, Orser, and Riding (1995) and Haynes and Haynes (1999) have argued that male- and female-owned businesses have the same ability to obtain finance.

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Using data from the 1998 National Survey of Business Finances, Coleman (2002) revealed that, if other variables are controlled, women are no less likely than men to apply for or be approved for a loan. Similarly, Fabowale, Orser, and Riding (1995) argued that male and female business owners are different in systematic ways, but when such differences are taken into account there are no differences in their access to finance and in the terms of credit provided. As a result, women who own SMEs are deprived of essential opportunities to access finance.

Sex and SME performance

The effect of gender on performance has been widely studied. A number of studies have shown that women achieve lower performance than men (Chaganti & Parasuraman, 1997; Fasci & Valdez, 1998; Loscocco et al., 1991; Rosa, Carter, & Hamilton, 1996; Watson, 2001). Fasci and Valdez (1998), Light and Rosenstein (1995), Tigges and Green (1994) and Watson (2001) established that, though business ownership might provide women with a viable opportunity to achieve career success, gender negatively impact on the performance of businesses owned by women. This is due to disadvantages experienced by women in socialisation practices, educational experiences, family roles, and networks.

Similarly, Loscocco et al. (1991) observed that small businesses owned by women in the United States tend to be less successful than those owned by men, even though ever-increasing numbers of women have been choosing small business ownership in an apparent attempt to escape their well-documented inequality in the labour market. Similarly, Cron, Bruton, and

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Slocum (2006) suggested that females in the United States earn significantly less than their male counterparts. It is indicated that the lower performance outcomes for female owners/managers are the result of women having less experience as business providers and less motivation to become entrepreneurs than their male counterparts.

Some other studies, however, suggest that there are no performance differences between men and women owned enterprises (Fischer, Reuber, & Dyke 1993; Kalleberg & Leicht 1991; Tigges & Green 1994). For example, Johnsen and McMahon (2005) and Papadaki and Chami (2002) indicated that there are no significant differences in performance between men and women owners/managers once appropriate demographic and other relevant influences are taken into account. They are more family oriented and less keen on pursuing economic goals related to firm expansion. Accordingly, they are expected to have lower performance than their male counterparts.

An indirect effect of access to finance on the relationship between sex and performance is expected in the Ghanaian context. It is anticipated that male owners/managers are more likely to be able to access finance than their female counterparts. Access to finance enhances the ability to pursue business objectives and improve business performance. Therefore, if male owners/managers have higher ability to access finance, and if access to finance improves performance, then it could be speculated that male owners/managers of SMEs will have higher ability to access finance, and ultimately better than their female counterparts.

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Financial leverage ratio, access to finance and SME performance

Financial leverage ratio is the proportion of debt in the total capital in a business (Beal & Goyen, 2005). It is suggested that financial leverage ratio signals liquidity risk and ability to meet financial provider requirements. This in turn influences SME access to finance and performance. The relationships between financial leverage ratio, access to finance, and performance are discussed next.

Financial leverage ratio and access to finance

A relationship between financial leverage ratio and access to finance is anticipated because a higher level of debt increases the magnitude of risk associated with repaying money to financial providers. As indicated by Harris and Raviv (1991), a higher financial leverage ratio results in a lower liquidation value. This reduces the willingness of financial providers to invest money and consequently decreases the ability of firms to access outside finance (Deakins & Hussain, 1994). The relationship between financial leverage ratio and access to finance can be explained in terms of the costs of credit financing. In other words, bankruptcy costs increase with increasing financial leverage since the latter increases the risk that the company might not be able to generate enough cash flow to meet financial providers' requirements, such as dividends, interest payments, and principal payments (Cassar & Holmes, 2003; Titman, 1984).

In addition, agency costs may increase due to information asymmetry between owners/managers and financial providers. The greater the bankruptcy and agency costs arising from higher financial leverage, the higher the risk of

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insolvency (Brigham, Gapenski & Ehrhardt, 1999). It is thus expected that, the higher the financial leverage, the lower the willingness of financial providers to supply finance and thus the lower the ability of the firm to access finance. In addition, for securing debt, higher financial leverage implies a lower portion of fixed assets is available as collateral. As collateral plays an important role in SMEs' access to finance, SMEs with higher financial leverages are more likely to have lower ability to access finance (Cassar & Holmes, 2003; Abor & Biekpe, 2005).

Financial leverage ratio also denotes the ability of SMEs to access capital market. One of the listing criteria is that businesses have to be in a healthy financial condition and have sufficient working capital (Ghana Stock Exchange Fact book, 2008). A higher financial leverage ratio may hamper the ability of SMEs to meet this requirement. This in turn reduces their ability to access such finance. All of these factors reduce financial providers' willingness to invest in SMEs.

Financial leverage ratio and SME performance

A negative effect of the relative amount of debt that firms employ in their financial structure – financial leverage ratio – on performance has been proposed in the small business literature. It is suggested that firms with higher financial leverage ratios hold greater costs of credit financing (Beal & Goyen, 2005). Cassar and Holmes (2003) noted that firms with higher profits have lower levels of debt, as internal funds are preferred to debt because of the relatively higher cost of the latter. This association is supported by Gibson (2002) for small firms in the United States, and Michaelas, Chittenden, and

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Poutziouris (1999) and Chittenden, Hall and Hutchinson (1996) for those in the United Kingdom. Thus, firms with a higher amount of debt in their financial structure are expected to have less funds available to manage their businesses, a less secure financial shield against management mistakes, and therefore lower performance.

From this argument, it is expected that SMEs with lower financial leverages will be more able to access finance since financial providers perceive that they have less liquidity risk and a higher ability to meet financial provider requirements. When SMEs have access to finance, potential viable growth and further market opportunities enhance their performance as already discussed. Therefore, if a lower financial leverage ratio positively influences access to finance, and if access to finance adds to performance, then it might be expected that SMEs with lower financial leverages will have a greater ability to access finance and exhibit better performance.

Size, access to finance and SME performance

The size of a firm is a business characteristic employed in several studies on small firms. Size has been viewed as a determinant of a firm's ability to access finance and its performance.

Size and access to finance

Research shows that business size contributes to a firm's ability to access finance. Generally, smaller firms are expected to have less access to finance. This is because smaller firms frequently lack the consistent and sufficient financial information needed to convince financial providers about

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their operating performance and financial condition, and thus demonstrate their capacity to repay (Abor & Biekpe, 2005; Berger & Udell, 1998; Cunningham, Nikolai & Bazley, 2000; English, 2001). According to Coleman (2004), Coleman and Cohn (2000), Weinberg (1994), and Vyakarnam and Jacobs (1991), difficulty in accessing finance decreases with the size of the firm.

This is because larger firms generally have more tangible assets and thus an increased ability to reduce the magnitude of potential losses that financiers might incur. These consequently improve access to outside finance at lower finance costs (Harris & Raviv, 1991). Likewise, Berger and Udell (1998), Keasey and Watson (1993), and Wedig et al. (1988) pointed out that access to finance increases where firms can provide tangible assets such as inventory and equipment to serve as collateral. Small firms, which provide security backed by tangible assets, are generally charged a lower margin over base than those that are unable to provide such security. If the firm's assets are pledged as collateral, the cost associated with adverse selection and moral hazards can be reduced.

In addition, size and therefore assets work as instruments for resolving conflict between owners/managers and financial providers, as assets provide an indication of owners/managers' participation in sharing business risk (Abor & Biekpe, 2005). Cosh and Hughes (1994) added that, since operational risk is inversely related to firm size, this presupposes that financial providers are less willing to invest in smaller-sized firms, and thus it is harder for smaller firms to access finance. In addition, firm size is one of the key criteria that indicate whether a firm will be able to access the capital market. In general,

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smaller sized firms are unable to access the capital market simply because they do not have enough fixed assets to meet the listing requirements (Ghana Stock Exchange Fact book, 2008).

In a similar vein, the International Labour Organization (2000), Wiboonchutikula (2002) and Pussarangsri (1994) indicated that, business size is an important determinant of bank attitudes to lending to business. Bank managers regard larger-sized businesses as less risky than smaller-sized businesses. This is because the higher costs of resolving information asymmetry problems with smaller firms discourage financial providers from lending to smaller-sized firms. Unlike larger firms, small firms do not enter into contracts that are publicly visible or widely reported in the press.

Many small firms do not publish audited financial information that can be shared with providers of outside finance (Wiboonchutikula, 2002). Without credible business information, small firms have to provide collateral to reduce such risks. However, they often do not have enough assets to secure loans (Suranaree University of Technology, 2001; Small Industry Credit Guarantee Corporation, 2005) . These factors imply that smaller firms are more likely to be denied loans or investments than larger firms.

Size and SME performance

Size of business has also been found to have an important influence on SME performance (McMahon, 2001b; Tigges & Green, 1994). Larger-sized firms receive more benefits from government regulations, tax law, competition for labour, and financial resources (Indarti & Langenberg, 2004). In addition, due to economics of scale larger-sized firms pay less than smaller-sized firms

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for their inputs (Aldrich, Rosen, & Woodward, 1987). They therefore tend to perform better than their smaller-sized counterparts. Smaller firms have fewer resources and tend to benefit less from government programmes than large firms. In addition, without economics of scales, smaller firms have higher costs of production than larger firms (Tigges & Green, 1994).

It is anticipated that larger-sized firms are more likely to be able to access finance since they have more fixed assets to use as collateral. From this discussion, access to finance is expected to have a positive influence on performance. Therefore, if business size positively influences access to finance, and if access to finance also has a positive association with performance, then larger firms are expected to have a higher ability to access finance, which ultimately enhances their performance.

Financial information and access to finance

It was noted that financial information is very useful for SMEs in accessing finance (Holmes et al., 2003; Ratnatunga, Romano & Lourens, 1993). This is because finance is one of the key factors enabling SMEs to grow and pursue their goals. The issue of investment readiness has been used to rationalise the finance gap. It explains that one of the reasons why small firms face more restrictive financing conditions than larger firms is because they fail to keep financial information which allows outside investors to assess their performance (Lattimore et al., 1998). Information asymmetry, where financial providers have less information about the financial circumstances and prospects of small firms than owners/managers, is regarded as the root of

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small business finance problems, and poses two concerns for financial providers (Binks, Ennew & Reed, 1992; Deakins & Hussain, 1994).

The first is a moral hazard (a monitoring problem), and involves small businesses intentionally taking advantage of information asymmetry to redistribute wealth to themselves (Deakins & Hussain, 1994). This problem can take the form of excessive consumption of perquisites such as the unauthorised use of a firm's assets for personal purposes (Holmes et al., 2003). Moreover, since the firm's expected returns depend on the associated risk, owners/managers may have an incentive to take higher risks than they otherwise would if they bore all the risks. This is because, with external funding, they benefit from any additional returns, but do not suffer disproportionately if businesses are liquidated. Even so financial providers try to minimise this risk by securing seats on the board or imposing restrictive covenants (Deakins & Hussain, 1994).

The second problem is adverse selection (a risk assessment problem). Adverse selection arises from small firms that are perceived to have higher default risk than larger firms; thus, higher interest rates are applied to them (Friedman & Hahn, 1990). As the interest rate is increased, the mix of small firms that are seeking finance changes adversely. The safer small firms, who always repay their debt or comply with the terms of funding, stop applying, while only the riskier small firms, who are willing to pay higher interest rates where they perceive their probability of repaying loan to be lower, keep applying (Craig, 2004). Thus, raising interest rates does not result in an increase in receipts to cover the higher risk of small firms, but may lead to

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lower returns due to the increasing average risk of small firms that seek external funds (Friedman & Hahn, 1990).

The result of information asymmetry between financial providers and small firms, is that the willingness of financial providers to supply finance to firms is reduced (Ang, 1992; Berger & Udell, 1995; Lattimore et al., 1998; Peterson & Rajan, 1994; Stiglitz & Weiss, 1981; Winker, 1999). However, Meza and Webb (1987) demonstrate that asymmetric information can lead to an oversupply of finance rather than an under supply, due to the inability of lenders to discover all of the relevant characteristics of borrowers. While research findings are contradictory, it is suggested that financial information decreases the extent of the moral hazard and of adverse selection problems, and ultimately facilitates SME access to finance (Binks, Ennew, & Reed, 1992).

The preparation and use of financial information does not only communicate useful information on an SME's financial position, but also conveys SME credit quality to financial providers. Credit quality assessment is considered one of the most effective mechanisms enabling financial providers to decide whether to invest in SMEs (Berger & Udell, 1998; Choy, 1990; Cunningham, Nikolai, & Bazley, 2000; Palmer, 1994). Financial information helps financial providers to evaluate whether SMEs need finance and, if so, helps to determine the appropriate amount, the length of time, and the likelihood that the SME will repay or comply with the terms of the finance (Choy, 1990; Cunningham, Nikolai & Bazley, 2000).

Haron and Shanmugam (1994) found that insufficient information about loan applications from banks, lack of a proper business plan, and lack

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of knowledge of accounting are some of the common problems faced by bank officers when dealing with small firms. Batten and Hettihewa (1999), Haron (1996), Haron and Shanmugam (1994), and the World Bank (1978) found that lack of financial information about SMEs makes it hard for lenders to access their credit ratings and evaluate their potential risks and returns. These problems discourage lenders from lending to SMEs, though they may still lend to SMEs with high collateral requirements or at high interest rates since it is difficult to be confident that such firms have the ability to successfully repay funds lent.

Berkowitz and White (2004) and Chee (1984) also noted that lenders tend to ignore small firms, preferring larger firms that typically generate more income at less risk. On the other hand, Binks, Ennew and Reed (1992) and Stanga and Tiller (1983) argued that restricted access to finance is not attributable directly to size, but is instead a result of the problems associated with the availability of information necessary for evaluating projects. Financial information provides a valuable incentive for lenders to serve the credit needs of all borrowers equally. Likewise, Choy (1990) compared similarities and differences in the sources of financing for business enterprises in three East Asian countries, i.e. China, Japan, and Taiwan, as well as the United States, and concluded that finance is generally available to businesses with good financial information that can demonstrate their ability to repay loans.

Financial information is especially required when SMEs are seeking external equity, to ensure that investors are informed of events that may impact on their investment decisions (Holmes et al., 2003; Ratnatunga,

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Romano & Lourens, 1993). For instance, to access capital market, SMEs have to meet listing criteria related to financial information. That is, they must ensure that financial statements have been prepared in accordance with the stock exchange rules and regulations, and that the auditor has to be approved by the stock exchange. These requirements have been applied to ensure that all investors receive information necessary for investment decisions (Ghana Stock Exchange Fact Book, 2008). Moreover, to attract other sources of external equity funds such as angel financing and venture capital, SMEs have to be able to provide good financial information records to demonstrate their potential for success (Mason & Harrison, 2001).

Financial information and SME performance

In the absence of financial information, SMEs not only find it difficult to signal their value to financial providers when seeking finance, but also have trouble performing well. This is because, without financial information, SMEs do not have the means to control business activity, assess business performance, or plan for the future (Ratnatunga, Romano & Lourens, 1993). Empirical evidence suggests that financial information is central to all business functions, forming the basis for corrective and preventive actions that improve organisational performance (Palmer, 1994; Peacock, 2000; Potts, 1977; Wichmann, 1983). Financial information provides all data on key operational matters necessary for protecting businesses from falling into a difficult situation before it is too late to recover (Hughes, 2004; Lauzen, 1985; Ratnatunga, Romano & Lourens, 1993).

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Therefore, businesses with solid financial information practices are more likely to perform better than businesses lacking these (Hughes, 2004). Hughes (2004) argued that SMEs are unable to perform well by just being able to access finance, but that they need to have financial information to manage it. In other words, even if SMEs have sufficient finance, they may lose it simply because they do not have timely financial information on key operating matters that they can draw upon in making sound decisions. Financial information enables SMEs to make better decisions, plan more effectively, and avoid the many possible pitfalls businesses face.

Blackwood and Mowl (2000) examined the relationship between business planning/financial management and business performance, and found that businesses with better performance were likely to be operated by owners/managers who regularly prepared financial information. These results are consistent with the findings of Lussier (1995), Palmer (1994), McMahon and Davies (1994; 1992), Gaskill, Van Auken, and Manning (1993), Whittred and Zimmer (1984), and Wichmann (1983), all of whom highlight financial information as one of the important factors affecting SME performance. The influence of financial information on SME performance does not end with their preparation or maintenance; rather, it is dependent on their use for decision-making.

As such, financial information does not provide any benefits unless it is used as a management tool (Ingram et al., 1999). Though a majority of smaller enterprises prepare statutory financial information, very few use this information for decision-making. Potts (1977) noted that the use of financial information in decision-making provides the clearest and most striking

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distinction between small businesses with good performance and those with low performance. DeThomas and Fredenberger (1985) corroborate Potts' (1977) findings by demonstrating that businesses which did not use adequate financial information for financial controls had lower performance than firms that did.

This scenario may be understood in the light of the findings of Hodgetts and Kuratko (1998) and Ratnatunga and Dixon (1993), whose analyses indicate that financial information provides owners/managers with information vital to their businesses. Such information includes the profitability of past activities, their ability to meet liabilities and operating expenses, and the financial structure of the business in relation to current and non-current assets. Nevertheless, the benefits of using financial information depend on its quality. Intomart (2003), indicated that a competent assessment of SME economic and financial performance is based on high quality financial information. This is because such information gives an accurate picture of the true financial condition of the business.

In contrast to the findings of the above studies, a meta-analysis of 320 empirical studies conducted by Capon, Farley and Hoenig (1990) relating environmental, strategic, and organisational factors to financial performance failed to discover any definitive impact of financial information on financial performance. A similar outcome was reported in Thomas and Evanson's (1987) study of 398 small pharmacies in the United States. They were unable to demonstrate a significant association between the number and the frequency of use of financial information on one hand and SME performance on the

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other. They hypothesised that this might be due to a lack of ability on the part of owners/managers to interpret information properly.

Their proposition is supported by the findings of KPMG Special Services, and EIM Business & Policy Research in the Netherlands, European Network for SME Research, and Intomart (2003), and Williams (1984), that a lack of knowledge about financial information limits SMEs' ability to utilise this information to gain a competitive advantage. Financial information is expected to enhance access to finance. This is because firms with good financial information will face fewer barriers in raising external funds. Access to finance is expected to enhance performance of SMEs since it allows them to have more investment opportunities. Thus, if financial information impacts performance, and if access to finance enhances performance, then it is speculated that financial information will influence access to finance, which ultimately influence performance.

The conceptual framework for the study

A study on investment readiness, access to finance and SME performance should, therefore, be based on an appropriate conceptual framework that would serve as a building block for the study from the statement of problem through data collection to the analysis of data. Figure 1 depicts the relationship between performance, access to finance and investment readiness factors.

Access to finance is critical to the performance of SMEs in a number of areas. Access to finance, rather than the cost of finance appears from the literature to be the biggest problem for SMEs. SME performance would be

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severely hindered from a number of perspectives (e.g. growth, cash flow, profitability, independence, efficiency, job security, productivity and returns on assets) without adequate access to sources of finance, as informal sources are very limited and cannot be used as a basis for on-going finance. In turn, an inhibited or poor performance by SMEs in these areas would constrain access to funds and raise the cost of these funds in the future. The underpinning theory for this study was the pecking order theory.

According to the pecking order theory, a firm's capital structure is driven by the firm's preference to finance with internally generated funds instead of with external financing. If external financing is required, debt is preferred over equity. The pecking order theory can be explained from the perspective of asymmetric information and the existence of transaction costs. Holmes et al. (1991) admitted that pecking order framework is consistent with small business sectors because they are owner-managed and do not want to dilute their ownership. Owner-managed businesses usually prefer retained profits because they want to maintain the control of assets and business operations. This is not strange considering the fact that in Ghana, SMEs funding is made up of about 86 percent of own equity as well as loans from family and friends. Losing this money is like losing one's own reputation, which is considered very serious customarily in Ghana (Bautsi, 2002). From the theoretical and empirical review, it is expected that access to finance has a positive effect on SME performance in Ghana.

This study formulated three hypotheses: relationship between investment readiness and access to finance; investment readiness and performance; and access to finance and performance. Investment readiness has

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been conceptualised into three dimension, owner/manager readiness, business readiness and information readiness. Owners/managers characteristics were prior experience, education, age and gender. These four characteristics were identified in literature as influencing access to finance. Business readiness in this context also refers to the financial leverage and the business size.

From the theoretical and empirical review, this framework assumes that access to finance should have a positive effect on SME performance in Ghana. Also all the investment readiness variables except financial leverage were expected to have a positive relationship with access to finance. Finally, for the influence of investment readiness on SME performance, it is expected that all the investment readiness variables except financial leverage would have a positive effect on performance.

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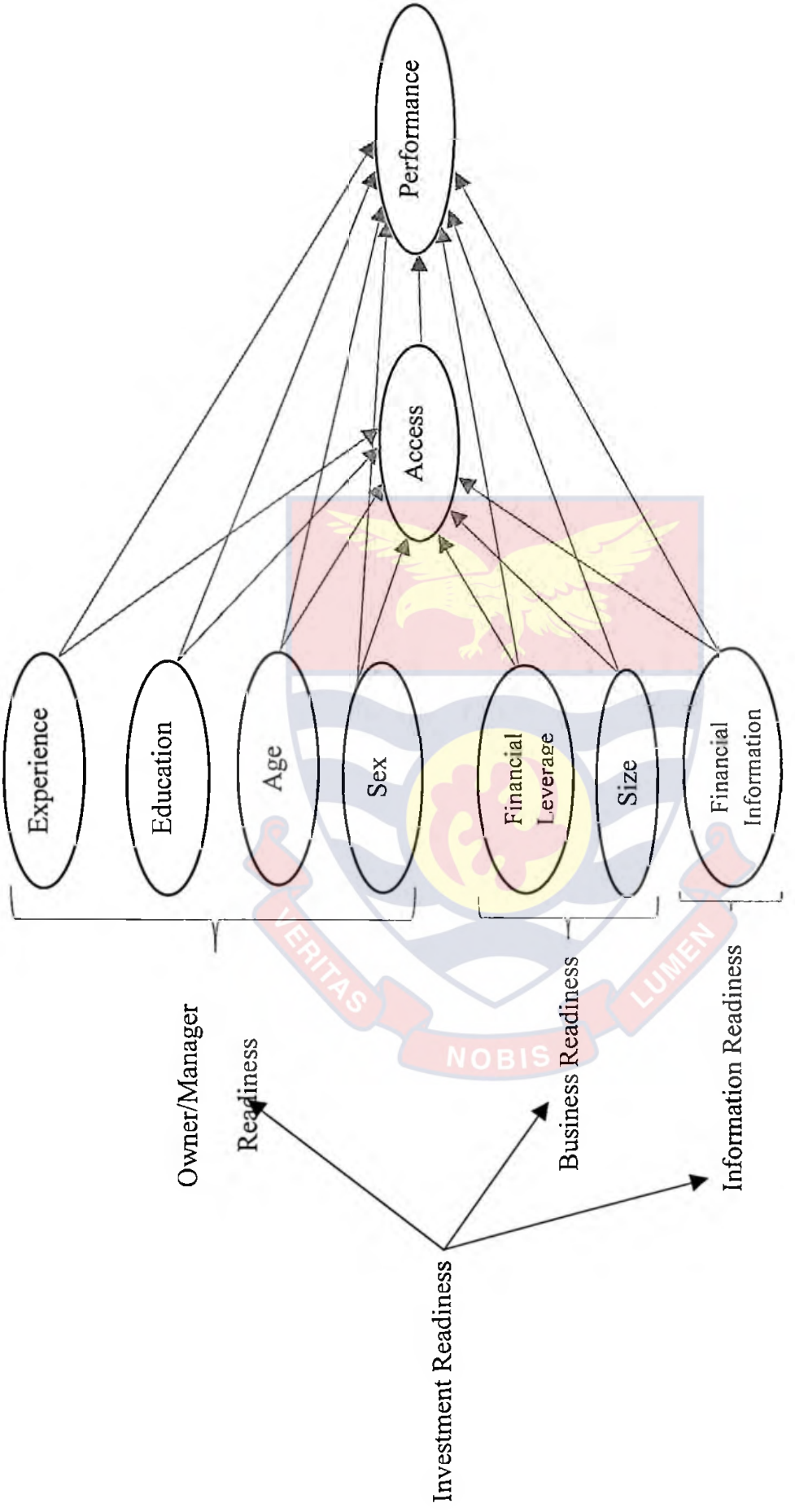

Figure 1: The relationship between investment readiness, access to external finance and performance of SMEs

Source: Author's construct (2011)

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CHAPTER FIVE

RESEARCH METHODOLOGY

Introduction

This chapter deals with the research methodology, which covers the study area, study population, sampling size and procedure as well as data sources. It also describes the instruments used, pre-testing, fieldwork, challenges on the field, data analysis and ethical considerations.

Study area

The study area is the Accra Metropolis of the Greater Accra Region and it covers a total land size of 200 sq. km. Accra is not only the seat of Government but also the capital of the Greater Accra Region. Ghana's first President, Dr. Kwame Nkrumah, declared Accra a city (the first city of Ghana) in 1961 and demarcated Accra into six sub-metropolis namely; Ashiedu Keteke, Osu Klotey, Ayawaso, Ablekuma, Kpeshie and Okai Koi sub-metropolis. The L.I. 1615 of 1995 recreated the metropolis into thirteen sub-metropolis, which was later repealed by the L.I. 1926 of 2007 which delineated two sub-metropolis from the Accra Metropolis to create the Ledzokuku/Krowor Municipality thereby leaving eleven sub-metros to form the AMA. Appendices C and D show the breakdown of the electoral areas for the sub-metropolis.

The study area shares its northern boundary with the Ga West District and the southern boundary is engulfed by the Gulf of Guinea. The eastern corridor of the metropolis is the Ledzokuku-Krowor Municipality. The metropolis is bounded to the west by Ga South Municipality.

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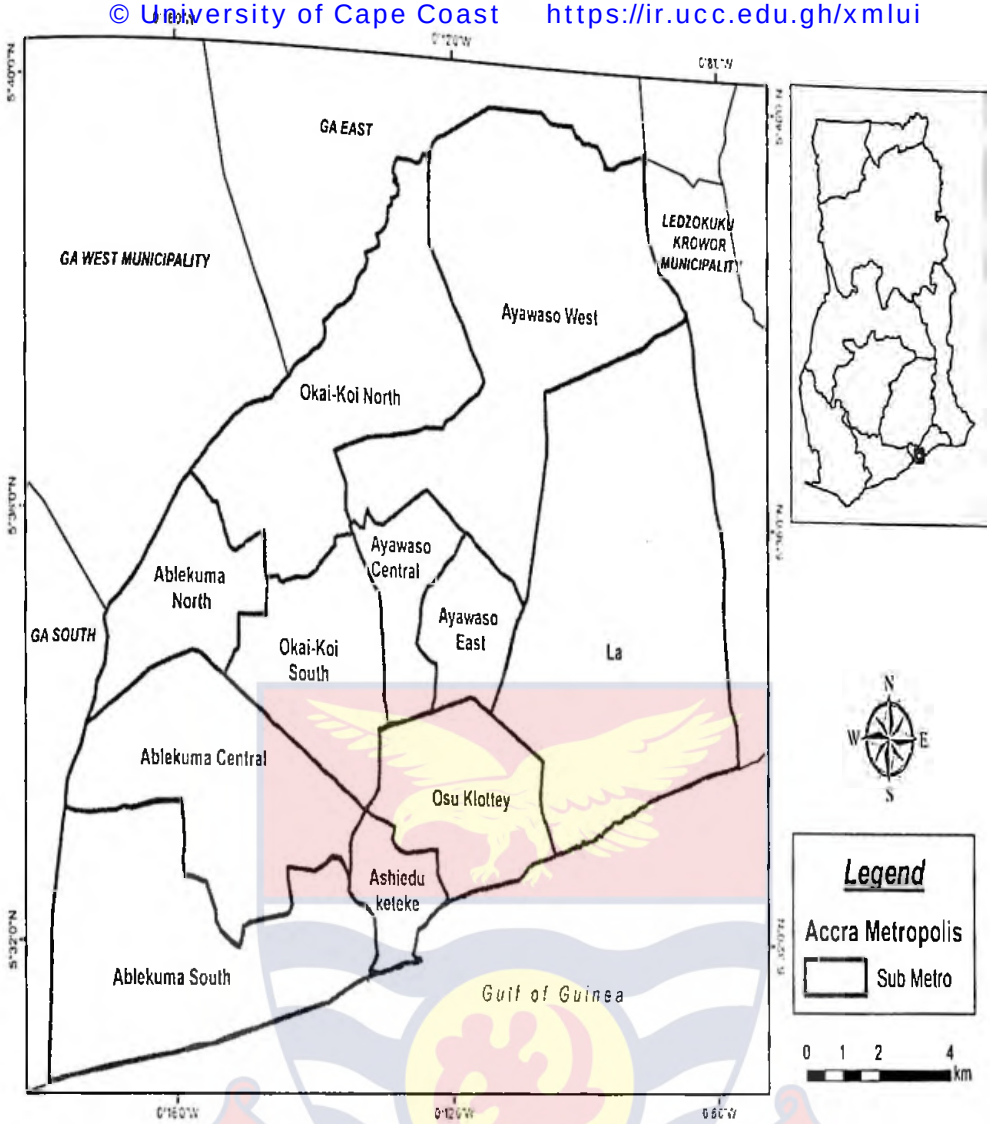

Figure 2: Map of the Accra Metropolis

Source: Cartography Unit, Department of Geography and Regional Planning, UCC

The study area is a large metropolis with a 2010 residential population of about 4 million. However, it is commonly thought that, with migrant inflows from the north of Ghana and from neighbouring countries, the area's population may really top 5 million. It is estimated that the growth rate is around 3.1 percent per annum. Whatever the actual residential population, an additional half a million commuters stream in from radial areas daily to work in administrative, educational, industrial and commercial concerns (World Bank, 2010).

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According to the Ghana Statistical Service (2010), the metropolis is the second most industrialised area in Ghana, contributing over 10 percent to the GDP. In 2000, there were nearly 200,101 persons working in various industries in the metropolis. This represents 22.34 percent of the employed labour force in Accra. Manufacturing employed about 67.3 percent of the industrial employment. Construction, the second largest industrial employer, had a labour force of 22 percent. Table 8 shows the distribution of the district's working population in the industry.

Table 8: Distribution of working population by industry in the Accra Metropolis in 2010

Sub sector	No. of Employees	Percent
Manufacturing	276,507	69.6
Construction	106,034	26.7
Mining & Quarrying	9,206	2.3
Electricity, Gas and Water	5,497	1.4
Total	397,244	100.0

Source: Ghana Statistical Service (2010)

Commercial activities are characterised by a few large and medium size enterprises engaged in import, export, wholesale, distribution, and retail businesses and a myriad of small-scale traders, suppliers, transporters, and retailers. Commerce is the largest and most visible sub-sectoral activity. Although the large firms account for highest value added, they represent just a fraction of the labour employed in the commercial sub sector; their turnover is about one-half of the total in the sub sector. In the middle are small stores and market stall owners who also depend to a large extent on the wholesaling functions of the large-scale commercial units. A few of them obtain their

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supplies directly from the industrial establishments within the metropolitan area and from abroad. These, together with the large units, account for between 70 and 80 percent of the value of the total turnover of the commercial activities (Ghana Statistical Service, 2010).

Study population

The target population for the study was all SMEs in the Accra Metropolis. The accessible population was defined as all manufacturing and trading SMEs, which had registered with the National Board for Small-Scale Industries (NBSSI) in the Accra Metropolis as at July, 2010. The total number of businesses recorded in the NBSSI's register by location in the Metropolis was 3,474 as shown in Table 9. The population was clustered using the 11 sub-metropolis.

Sample size and sampling procedure

Given the 3,474 businesses, it was logical to determine a sample for the study. Krejcie and Morgan (1970) and Sarantakos (2005) consider that a sample size should be determined either by direct calculation using statistical formulas appropriate to the nature of the study or by reference to tables which set out recommended sample sizes for given populations. Based on the table developed by Krejcie and Morgan (1970), with a population size of about 3500 and to ensure a 5 percent margin of error, the sample size should be 346. However, to ensure an increase in internal and external validity, a sample of 500 SMEs was selected for this study as presented in Table 9.

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Table 9: Distribution of population and sample size by sub-metropolis

Sub-metropolis	Total population	Sampled size
Ashiedu Keteke	350	50
Osu Klottey	335	48
Ayawaso East	112	16
Ayawaso Central	70	10
Ayawaso West	269	38
Ablekuma South	435	63
Ablekuma Central	106	16
Ablekuma North	405	58
Okai Koi North	439	63
Okai Koi South	579	84
La	374	54
Total	3474	500

Source: Ghana Statistical Service (2005) and Fieldwork (2012)

Clustering sampling was used to select the sample from each sub-metropolis. This sampling technique was used primarily to ensure that different sub-metropolis of a population were adequately represented in the sample so that the level of accuracy in estimating parameters also increased. The division of the population into cluster was based on the exact location of the business as provided by NBSSI list of SMEs in the study area. A proportion of each cluster was calculated to get the number of respondents for each sub-metropolis. The respondents were then randomly selected (see Table 9). Based on the list provided by NBSSI, a sample fraction of 1/7 was calculated and one SME was picked after every seven SMEs in each sub-metropolis.

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The first member was selected using the lottery method (by writing 1-7 on pieces of papers and selecting one of the papers). The owners and managers of SMEs were the target respondents. These owners and managers were chosen because they had vital information in relation to the business performance and access to finance. Most employees of SMEs might not be privy to such management information. Table 9 shows a distribution of the sampled population in the Accra Metropolis. In addition to the 500 SMEs that were sampled, a focus group discussion was organised for the owners and managers of SMEs who are members of the Ghana Chamber of Commerce and Industry (GCCI) in Accra to complement the information given by the owners and managers from the questionnaire. GCCI is the voice of the business community within Ghana.

The chamber is an independent organisation serving and promoting the commercial and industrial interest of small and large companies in Ghana. With the permission of GCCI, the SMEs present at the quarterly meeting (29th June, 2012) were used for the focus group discussion. A total of 112 owners and managers were available for the meeting, 8 groups of 14 members each were organised for the focus group discussions.

Sources of data

Both primary and secondary data sources were used for the study. The data was collected through the use of questionnaire and focus group discussions (Appendices A and B). Owners/managers of SMEs in the Accra Metropolis were the main respondents. Findings from the focus group discussions were used to complement or authenticate the findings of the

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owners and managers from the survey. The secondary data was obtained from official reports, books, publications, the internet and other documents. The Institute for Development Studies library and the School of Business library were visited for publications such as books, professional and academic journals, and reports. The researcher's own observation and informal interviews supplemented these data collection methods.

Data collection instruments

The instruments used in this study were questionnaires to owners and managers of SMEs and a focus group discussion for members of Ghana National Chamber of Commerce and Industry. The questionnaire consisted of both open-ended and closed-ended questions. It was made up of 47 items grouped into five sections (see Appendix A). The first section of the instrument dealt with information on the characteristics of SMEs in the Accra Metropolis. The second section was on the personal details of the owners/managers. The third section sought for data on the capability to access external finance. It focused on how the business was financed and the problems associated with raising SMEs finance. The fourth section also dealt with the use of financial information and the final section was on measures of SMEs performance.

A dichotomous response was applied in questions where two exclusive response choices were adequate, such as in questions relating to gender and access to finance. Multiple choice responses were developed where there were multiple options for the respondent to select from but only one answer was sought, such as in questions about experience, education and age. A five-point

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Likert scale with points being: Very Important = 5; Important = 4; Moderately Important = 3; Somewhat Important = 2; Not At All Important = 1 were the scaling format adopted in this study in order to gauge the perceptions and opinions of respondents on performance, access to finance, and financial information.

The issue of questionnaire length was dealt with by keeping the questions concise, unambiguous and simple. In addition, a cover letter was used to outline the importance of the study, enlist the respondent's assistance, and emphasise the value of their input. A focus group discussion (FGD) was held for all the 112 owners and managers of Ghana Chamber of Commerce and Industry, who were available for their quarterly meeting on 29th June, 2012. A moderator's guide (Appendix B) was developed and covered activities on business performance, factors that influence performance, access to finance and investment readiness of SMEs. The discussion, which was aimed at soliciting information on the study topic within a group environment, proved to be very successful. There were 14 participants in each group with two facilitators one as the moderator and the other, as a note taker of responses from participants.

In addition to the note taker, a digital voice recorder was used with the permission of the participants. The FGD was conducted to complement the responses of the main respondents in the survey and it also allowed great flexibility in the questioning process. It also allowed the interviewer to clarify terms that were unclear, control the order in which questions were asked and to probe for additional information. Sarantakos (1997) suggests that FGDs, due to the group environment, allow significant points of view to be presented

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in a real, emotional and summary form as spontaneous expression. The focus group discussion also provided significant information about the study object and explained trend variances, reasons and causes through the views of respondents.

Pre-test

A pre-test was undertaken in order to refine the questionnaire so that respondents would have no problem in answering the questions. In addition, it enabled the researcher to obtain some assessment of the questions' validity and the likely reliability of the data collected. In order to check the reliability of the questionnaire, a pre-test was conducted using a convenience sampling of 30 owners/managers in the Cape Coast Metropolis to assess how they interpret the questions, and to detect problem(s) in the questionnaire design for correction before the actual survey was conducted.

The pre-test helped to correct ambiguities and poorly worded questions and these were modified to facilitate reading and understanding. The Cronbach alpha reliability coefficient obtained was between 0.97 and 0.78, suggesting that the instrument was reliable. The pre-testing was done in February, 2012 and the main data collection was conducted in September, 2012.

Fieldwork

The fieldwork was done in September 2011 on sampled SMEs due to the large size of data to ascertain whether the locations of SMEs stated in the NBSSI register were correct. Twelve field assistants were employed to help

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with the data collection, given the workload involved in conducting face-to-face interviews with such large numbers of respondents and the spread of SMEs in the population selected. To ensure that the questionnaires were properly administered, a training programme was designed and carried out by the researcher, which included practice session in administering the questionnaire. The field assistants administered the questionnaires to themselves in turns so that all of them would be able to detect the flaws in the styles of questions when it comes up during the fieldwork.

Data analysis

Data collected from the survey design were analysed quantitatively using both descriptive and inferential statistics. The data collected were first edited to remove errors and then coded accordingly. The data obtained were analysed using the computer software; Statistical Product and Service Solution (SPSS 17.0 version). The technique used to test the hypotheses in this study is Structural Equation Modelling (SEM) and the Ordinary Least Square (OLS). This section discusses the rationale and basis for SEM and provides a justification for the use of Partial Least Squares (PLS), a version of SEM, in this study. The stages in structural equation modelling are described in an attempt to ensure that models are correctly specified and the results are valid. To prevent counterintuitive results, the OLS is used to confirm the hypothesised relationships between the theoretical constructs.

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Structural Equation Modelling

Structural Equation Modelling is a comprehensive statistical approach to testing hypotheses about relations among observed and unobserved variables. SEM can be viewed as a multivariate technique combining aspects of multiple regression (examining dependence relationships) and factor analysis (representing unmeasured concepted-factors-with multiple variables) to analyse the interrelationships among variables simultaneously. It is used to establish whether the proposed relationships among the variables are empirically supported in terms of whether or not significantly large parameters are found to exist between the variables. SEM does not assume that variables are measured without error. This is because a distinction between theoretical variables (unobservable/latent variables) and their surrogates (observed variables) allows for measurement errors in the observed variables.

Justification for the use of Partial Least Squares

There are two popular methods for estimating SEM with latent variables (Olsen & Johnson, 2003). The first approach is factor-based covariance fitting exemplified by software such as LISREL, EQS, and AMOS (Hair et al., 1998). The second is the component-based PLS approach. PLS is widely used by a growing number of researchers, and is selected for this study for several reasons.

Firstly, the component-based approach applied in PLS precludes two serious problems: inadmissible solutions and factor indeterminacy (Fornell & Bookstein, 1982). PLS estimates the latent variables as exact linear combinations of the observed measures. It thus avoids indeterminacy problems

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and provides an exact definition of component scores (Chin, 2004). Secondly, the PLS approach allows the examination of indirect relationships among factors (Maruyama, 1998). As depicted in Figure 1, there is an indirect relationship between investment readiness and performance via access to finance. The indirect analysis is better achieved by the use of the PLS technique than by multiple regression analysis or other techniques (Maruyama, 1998).

Furthermore, PLS allows simultaneous testing of an entire model instead of a simple examination of the relationship between two variables, which provides the researcher with a comprehensive means of assessing and modifying a given theory. The PLS technique does not require a normality assumption for estimating model parameters, observation independences, or variable metrics, because a series of ordinary least squares analyses of the iterative algorithm is applied in this approach (Chin, 2004; Falk & Miller, 1992).

The PLS algorithm, encompassing canonical correlation, redundancy analysis, multiple regression, multivariate analysis of variance, and principal components, eliminates the multi-collinearity problem: the correlations between observed variables which impact the degree to which any variable's effect can be predicted or explained by the other variables in the analysis (Wold, 1985). In addition, it has minimal requirements for sample size (Falk & Miller, 1992). The issue of sample size for adequate estimation has been the focus of an extensive debate in the structural equation literature. There are a number of recommendations for developing an efficient method of determining sample size in the application of SEM. Hair et al. (1998), and

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Mueller (1996) suggest that the minimum sample size for the number of parameters to be estimated in a model is a ratio of at least 10:1.

However, Kline (1998) indicates that a sample size of less than 100 was commonly found in previous studies using SEM. Kline (1998) suggests a minimum ratio of sample size to number of parameters of 5:1 for the complexity of the path model. While there is as yet no absolute standard sample size for SEM, Chin (2004) proposes as a rule of thumb that a minimum sample size for PLS should be ten times the largest number of structural paths directed at a particular construct in the structural model. In this study, the dependent variable, with the largest number of independent variables impacting it is performance. Performance is influenced by eight independent variables: access to finance, experience, education, age, gender, financial leverage ratio, size, and financial information. Therefore, the minimum sample size required for this study is 80 (8 * 10).

Finally, PLS could be used not only for theory confirmation but also for application and prediction. It identifies where relationships might or might not exist and suggests propositions for later testing (Chin, 2004). Given the advantages of PLS over LISREL, AMOS, multiple regression, path analysis and other techniques, it was chosen for testing the hypotheses in this study.

Path diagram

Path diagrams are another method of revealing a series of causal relationships among constructs in terms of visual portrayal. The study used path diagrams to show the relationships among three unobserved variables in chapter three and four: performance, access to finance, and investment

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readiness. These variables denoted the theoretical constructs corresponding to the relationships, which were tested empirically. Observed or measured variables were then developed as discussed earlier.

Seven observed variables for performance were selected: profitability, sales growth, return on assets, cash flow, lifestyle, independence, and job security. Six observed variables for access to finance were also identified: perception of ability to access outside equity capital, ability to achieve low costs of accessing outside equity capital, ability to achieve low interest rates, ability to achieve low processing costs, ability to achieve low collateral requirements, and ease in handling loan accessing processes. Accuracy and completeness, timeliness, and consistency were the three observed variables for financial information. The unobserved and observed variables for this study are summarised in Table 10.

The structural model in this study consisted of a set of equations summarising the relationships among the unobserved variables. It was hypothesised that the performance of SMEs is a function of access to finance and investment readiness. At the same time, access to finance is also a function of investment readiness. Investment readiness in this study comprised experience, education, age, gender, financial leverage ratio, size, and financial information. The relationships among these unobserved variables for empirical testing purpose are shown in Figure 1. The relationships among performance, access to finance, and investment readiness factors where PERF, ACCESS, EXP, EDU, AGE, SEX, FLR, SIZE and FI are defined as in Table 10.

The structural model is a straightforward procedure, which translates a path diagram into a structural equation model. It proposes a model in which access

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to finance and investment readiness has direct effects on performance. Concurrently, investment readiness also affects performance via access to finance, so that there are both direct and indirect effects on performance via access to finance. The model can be expressed in a set of equations as follows:

$$PERF = \alpha_1 + A_1EXP + A_2EDU + A_3AGE - A_4SEX - A_5FLR + A_6SIZE + A_7FI + B_1ACCESS + S_1 \quad \text{(Equation 1)}$$

$$ACCESS = \alpha_2 + A_8EXP + A_9EDU + A_{10}AGE - A_{11}SEX - A_{12}FLR + A_{13}SIZE + A_{14}FI + S_2 \quad \text{(Equation 2)}$$

α_1, α_2 = Intercepts

$A_1 \ldots\ldots A_{14}$ = Structural parameters, regression coefficients of exogenous variables

B_1 = Structural parameters, regression coefficients of endogenous variable S1, S_2 = Random errors

Table 10: Unobserved and observed variables for this study

Unobserved Variables	Observed Variables
Access to Finance (ACCESS)	a. Perception of ability to access outside equity capital (ACCESS1)
	b. Perception of ability to achieve low cost of accessing outside equity capital (ACCESS2)
	c. Perception of ability to achieve low interest rates (ACCESS3)
	d. Perception of ability to achieve low processing cost (ACCESS4)
	e. Perception of ability to achieve low collateral requirements (ACCESS5)
	f. Perception of ease of handling loan application processes (ACCESS6)

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Table 10 continued

Unobserved Variables	Observed Variables
Performance (PERF)	1. Satisfaction with profitability (PERF 1)
	2. Satisfaction with growth in sales (PERF 2)
	3. Satisfaction with return on assets (PERF 3)
	4. Satisfaction with cash flow (PERF 4)
	5. Satisfaction with lifestyle (PERF 5)
	6. Satisfaction with independence (PERF 6)
	7. Satisfaction with job security (PERF 7)
Owner/manager readiness:	
Experience (EXP)	1. General Experience (GEXP)
	2. Industry Experience (IEXP)
	3. Entrepreneurial Experience (EEXP)
Education (EDU)	1. Highest educational qualification or nearest equivalent of owners/managers (EDU1)
	2. Area of educational qualification (EDU2)
Age (AGE)	1. Age of owners/managers (AGE)
Sex (SEX)	1. Sex of owners/managers (SEX)
Business readiness:	
Financial Leverage Ratio(FLR)	1. Proportion of debt in start-up capital (FLR1)
Size (SIZE)	1. Number of employees (SIZE)
Information Readiness:	1. Accuracy (FI1)
Financial Information (FI)	2. Importance (FI2)
	3. Timeliness (FI3)

Source: Author's Construct

Assessment of measurement models

The measurement model helps in validating the indicators used to measure each construct. The measurement model is assessed to determine the reliability and validity of the indicators used to represent the constructs. Factor

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loadings and composite reliability are used to assess the reliability of the measurement models. The validity of the measurement models is measured by the Average Variance Extracted (AVE), and by comparing the correlation matrix of the constructs with the square root of the AVE for each construct (discriminant validity). For each construct the measurement model was assessed through the PLS bootstrapping procedure.

The guiding principles recommended by Hair et al. (2006) for determining the significance and importance of the factor loadings of each item were implemented. They suggested that only items with loadings of 0.5 or greater are significant. Thus, only these items were included in the final measurement model. The minimum acceptable guideline for composite reliability was 0.7 (Chin, 2010; Hulland, 1999; Hair et al., 2006) and 0.4 for Average Variance Extracted (AVE) (Chin, 2010; Fornell & Larcker, 1981; Hair et al., 2006; Magner, Welker & Campbell, 1996). Kannae (1996) noted that trimming of the original measurement model was necessary when the factor loading, AVE and discriminant validities are below what is acceptable.

This strengthens the direct paths between the constructs and improves the structural model. Trimming of the model did not change the theoretical meaning of the underlying constructs or their respective indicators in this study.

Assessment of structural model

The objective of assessing the structural part of the model was to determine whether the theoretical relationships specified at the conceptualisation stage are supported by the data. Two assessments were

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applied to evaluate the structural model. The first was the signs of the parameters. These signs, representing the paths among the unobserved variables, indicated whether the direction of the relationships was as hypothesised. The second assessment was the significance of the magnitudes of the estimated parameters. These values had to be significant (indicated by *t*-value) in order to verify the strength of the hypothesised relationships (Diamantopoulos & Siguaw, 2000).

One of the main purposes of this study was also to examine the indirect influence of investment readiness on performance through access to external finance. This indirect relationship is assessed by the Sobel test, the most common method used to test indirect effects (Kenny, 2006). The formula for the Sobel test is as follows:

z-value = $a*b/\text{SQRT}(b^2*s_a^2 + a^2*s_b^2)$

where a = raw (unstandardised) regression coefficient for the association between Independent and mediator

s_a = standard error of a

b = raw coefficient for the association between the mediator and the dependent variable

s_b = standard error of b

SQRT = square root

To verify this indirect relationship, the reported p-value of the test statistic has to be significant (Preacher & Leonardelli, 2006). An indirect relationship implies an association whereby the independent variable was linked to a second variable, which subsequently influenced a dependent variable (Sobel, 1990).

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Ethical consideration

Besides dealing with the technical side of this study–with the issues of research design, data collection and analysis–there was another dimension to research that was considered, namely: the moral or ethical dimension. Just as practical considerations could prevent researchers from implementing the ideal research design or obtaining as large or diverse a sample as desired, so could ethical considerations constrain scientific enquiry. This study was designed in such a way that it did not pose any threat whatsoever or have the potential of posing any threat to the respondents.

The second ethical consideration in research is that of informed consent. For moral and legal reasons, respondents should not be coerced into participating in social research. Not only must subjects understand that their participation is voluntary, they must also be given enough information about the research to make an informed decision about whether to participate or not. In other words, researchers must obtain an explicit or implicit informed consent of their subjects to take part in an investigation. The issue of informed consent was catered for in this study by making sure that the respondents for the study were briefed to know the purpose of the research. The right to privacy is the individual's right to decide when, where, to whom, and to what extent his/her attitude, belief and behaviour would be revealed.

No matter how sensitive the information, ethical investigators protected the right to privacy by guaranteeing anonymity and confidentiality. This was exactly what this study did; all the questionnaires did not capture names of respondents. Besides, unless the respondent was illiterate, he/she was given the opportunity (under guidance) to answer the questionnaire

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personally. Subsequently, the report of the findings did not include names of respondents or anything that could lead to their identification.

Conclusion

This chapter has dealt with the data collection methods used in the study. Justifications for the chosen survey instruments and statistical methods have been described. Face-to-face interviews with structured questionnaires were employed to collect primary data from owners/managers of SMEs in the manufacturing sector in Accra. A sound basis on which to develop and estimate the structural equation models was described. The use of SEM and PLS to test the hypotheses in this study was justified.

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CHAPTER SIX

BUSINESS CHARACTERISTICS AND READINESS OF SMALL AND MEDIUM-SCALE ENTERPRISES

Introduction

This chapter presents findings of the business characteristics of SMEs in the Accra Metropolis and further analysis from the investment readiness, access to finance and performance variables. Also the parameters for the measurement and structural models were explained using the Partial Least Squares.

Characteristics of SMEs

The results from the descriptive statistics on sex by business characteristics covering the form of business ownership, types of business, business areas, business size, and years of experience are presented in Table 11. Of the 500 respondents, 280 (56%) were males and 220 (44%) were females. The majority (91.8%) of the SMEs were sole proprietorship, 6.2 percent were partnership and 2 percent were companies. The predominance of sole proprietorships over other legal forms of business might be due to the fact that they have fewer legal and tax requirements than partnerships or companies. Sole proprietorships provide owners/managers with independence in making decisions.

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Table 11: Business characteristics of SMEs in the Accra Metropolis

Business Characteristics	Male		Female		Total	
	F	%	F	%	F	%
	280	56 .0	220	44.0	500	100.0
Form of business ownership						
Sole trader	246	49.2	213	42.6	459	91.8
Partnership	25	5.0	6	1.2	31	6.2
Company	9	1.8	1	0.2	10	2.0
Total	280	56.0	220	44.0	500	100.0
Business type						
Trading	266	53.2	199	39.8	465	93.0
Manufacturing	10	2	13	2.6	23	4.6
Service	4	0.8	8	1.6	12	2.4
Total	280	56.0	220	44.0	500	100.0
Business area						
Clothing/fashion/textiles	34	6.8	83	16.6	117	23.4
Spare parts	103	20.6	11	2.2	114	22.8
Appliances	79	15.8	29	5.8	108	21.6
Furniture/ wood	18	3.6	6	1.2	24	4.8
Education	4	0.8	14	2.8	18	3.6
Restaurants	1	0.2	1	0.2	2	0.4
Total	280	56.0	220	44.0	500	100.0
Size of Business						
Micro	246	49.2	181	36.2	427	85.4
Small	34	6.8	36	7.2	70	14.0
Medium	0	0	3	0.6	3	0.6
Total	280	56	220	44	500	100.0
Years of experience						
1-5	107	22.3	83	17.3	190	39.7
6-10	76	15.9	64	13.4	140	29.2
11-15	37	7.7	26	5.4	63	13.2
16-20	31	6.5	17	3.55	48	10.0
21-25	5	1.1	6	1.25	11	2.3
26-29	9	1.9	12	2.51	21	4.4
30 and more	2	0.4	4	0.8	6	1.3
Total	267	55.7	212	44.3	479	100.0

Source: Field data, 2012

The sampled SMEs in the Accra Metropolis were male dominated (56%). The enterprises organised as companies were mostly male dominated. Out of 10 companies, 9 were male owned and only one was female owned. Thus, there were marked differences between males and females in the legal

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structure of business formation (χ^2= 13.4108: p-value = 0.001). The majority (93%) of the SMEs were into trading. Only 23 (4.6%) SMEs respondents were into manufacturing of which female-owned managers were more than the male-owned managers. The service sector was made up of 2.4 percent. However, there was no significant difference between males and females with respect to the type of business (χ^2= 4.2394: p-value = 0.120).

Table 11 also shows that 23.4 percent of the businesses in the sample were into clothing/fashion/textiles. This was followed by the spare parts dealers (22.8%) and firms selling appliances (21.6%). Grocery and supermarket shops selling necessities such as soap, shampoo, tissue, bread, jam, milk, and stationery represented 19 percent. They were followed by furniture and wood processing (4.8%) and health products (4.4%). A small proportion of respondents dealt in education (3.6%) and restaurants (0.4%). A high percentage of SMEs were attached to the clothing, jewellery, textiles and fashion businesses because demand for these products was high, allowing them to sell quickly and make a profit. Female-owned managers in this business area accounted for 16.6 percent of the total respondents. There was significant difference between males and females in terms of business area (χ^2 = 163.642: p-value = 0.000).

The business size in this study was measured using the number of employees as defined by NBSSI (1991). About 85.4 percent of the SMEs were micro enterprise (employees of 0-5), 14 percent were small-scale enterprises (employees of 6-30) and only 0.6 percent were medium enterprises (31-99 employees). The chi-square test did not reveal any significant difference

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between male and female owners/managers for the number of employees (χ^2 = 5.836: P-value = 0.054).

Nearly 40 percent of the respondents had owned or managed a business for not more than 5 years, while another 1.25 percent had been associated with a business for more than 30 years. Over 60 percent had managed a business for more than 5 years. Even though the male managers had more experience than the female counterparts there were no significant difference in experience between male and female (χ^2 = 5.001: P-value = 0.544).

An analysis was also carried out to ascertain the number of employees, on full and part time who were drawn from close family members, distant relations, friends and community members. Table 12 reveals that the 500 SME owners/managers had employed a total number of 1911 employees of which 836 (43.7%) were close family members and 715 (37.4%) were community members. About 99 percent of the total employees were on full time and 1 percent on part-time.

Table 12: Type of worker by time of engagement

	Full Time		Part Time		Total	
Type of Worker	F	%	F	%	F	%
Family	821	43.5	15	65.2	836	43.7
Distant Relative	146	7.7	8	34.8	154	8.1
Friend	206	10.9	0	0.0	206	10.8
Community members	715	37.9	0	0.0	715	37.4
Total	1888	100.0	23	100.0	1911	100.0

Source: Field data, 2012

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In Table 13, the sampled respondents mentioned the problems the SMEs faced as stiff competition, limited access to finance, high cost of utilities, high taxes and untrusted employees. Nearly 43 percent of the total respondents confirmed that stiff competition was the greatest problem faced by SMEs. About 21.8 percent of the respondents cited limited access to finance, where as 16.6 percent and 15.3 percent mentioned high cost of utilities and high taxes respectively as the problems facing the SMEs. Only 4.1 percent of the respondents indicated untrusted employees was a problem. Also the study revealed that 90.8 percent of these problems were associated with sole trader's type of business.

Table 13: Problems faced by small and medium-scale enterprises

	Sole trader		Partnership		Company		Total	
Problems	F	%	F	%	F	%	F	%
Stiff competition	180	39.2	12	2.6	2	0.4	194	42.3
Limited access to finance	85	18.5	9	2.0	6	1.3	100	21.8
High cost of utilities	69	15.0	2	0.4	5	1.1	76	16.6
High taxes	64	13.9	6	1.31	0	0	70	15.3
Untrusted employees	19	4.1	0	0	0	0	19	4.1
Total	417	90.8	29	6.3	13	2.8	459	100.0

n= 459, missing cases = 41

Source: Field data, 2012

Table 14 shows that 46.2 percent of the respondents mentioned that they had knowledge of government assistance of which only one (0.2%) respondent had ever benefited from such assistance. Among the types of business, SMEs in the trading sector had the highest knowledge about such

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assistance (43.2%). An owner/manager from the focus group discussion commented on this as follows:

> *I have heard about NBSSI but anytime I go there, there is no one in the office. I chanced upon them once for financial assistance. I was told I will get only GH100. What do I use GH100 for? What can Gh100 buy in this present Ghana? (male respondent).*

Table 14: Respondents' knowledge on governmental assistance by business type

Business Type	Knowledge		No Knowledge		Total	
	F	%	F	%	F	%
Trading	216	43.2	249	49.8	465	93
Manufacturing	13	2.6	10	2.0	23	4.6
Service	2	0.4	10	2.0	12	2.4
Total	231	46.2	269	53.8	500	100.0

Source: Field data, 2012

Investment readiness

Investment readiness, as discussed in Chapter Three, consists of three constructs: owner/manager readiness, business readiness, and information readiness. Results from the analyses of these three constructs are discussed in the next three sub-sections.

Owner/manager readiness

Owner/manager readiness consists of years of experience, level of education and age. About 68.9 percent of the owners/managers had up to 10

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years of experience while only 1.3 percent had more than 30 years of experience as shown in Table 15.

Table 15: Owner/manager experience

Years of experience	Frequency	Percent
1-10	330	68.9
11-20	111	23.2
21-30	32	6.7
More than 30	6	1.3
Total	479	100.0

n = 500, missing case = 21

Source: Field data, 2012

These findings imply that even though a number of owners/managers start their businesses, several of these businesses do not survive. Only 1.3 percent of the businesses survived after 30 years. About 21 respondents did not provide any answer for this question.

Table 16 shows the different educational levels of the sampled owners/managers. About 64 percent of the owners/managers had a form of higher education (Senior High School and Tertiary) of which 53.5 percent of these businesses were micro enterprises and 10.2 percent were small-scale enterprises. According to Kim and Staw (1991) and Katz (1992), owners/managers with higher levels of education are more successful because higher education provides them with knowledge and modern managerial skills, thereby making them more conscious of the reality of the business world and thus in a position to use their learning capability to manage business. A very small percentage (1.4%) had no education, the rest of the respondents had completed primary school (3.8%), Junior High School (31%).

The area of educational specialisation of the owners/managers is presented in Appendix E. Only 24.8 percent of the respondents had knowledge

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of Business or studied Business in school prior to starting this business. About 19.8 percent had some Vocational or Technical training, whereas for Arts (10.8%) and Sciences (8.0%). 36.6 percent of owners/managers of SMEs in Accra Metropolis did not have any formal education in any of these fields. They did not go beyond Junior High School.

Table 16: Level of education of owners/managers by size of business

Highest level of education	Micro		Small		Medium		Total	
	F	%	F	%	F	%	F	%
Nil	6	1.2	1	0.2	0	0.0	7	1.4
Primary	12	2.4	7	1.4	0	0.0	19	3.8
Junior High School	141	28.3	11	2.2	3	0.6	155	31.1
Senior High School	187	37.6	34	6.8	0	0.0	221	44.4
Tertiary	79	15.9	17	3.4	0	0.0	96	19.3
Total	425	85.4	70	14.0	3	0.6	498	100

n = 500, missing case = 2

Source: Field data, 2012

The ages of the respondents ranged from 21 to 91 years (Table 17). The modal age category was 31-35 accounting for 21.3 percent of respondents. The percentages of respondents in the other age categories were 20.0 percent for those in the range 36-40 years, 16.8 percent for 41-45 years, 12.3 percent for 46-50 years, and 10.9 percent for 26-30 years. Ages below 25 years and above 50 years accounted for less than 10 percent. The mean age was 40 years with a standard deviation of 10.

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Table 17: Age of Respondents

Age category (years)	Frequency	Percent
21 -25	32	6.8
26 -30	51	10.9
31-35	100	21.3
36-40	94	20.0
41-45	79	16.8
46-50	58	12.3
51-55	28	6.0
more than 55	28	6.0
Total	470	100.0

n = 500, missing case = 30
Source: Field data, 2012

Business Readiness

Business readiness comprises financial leverage ratio and size of business. To ascertain the financial leverage ratios, owners/managers were required to provide the sources of finance at start-up and the proportion of current debt to current total finance as well as the proportion of equity in the business. The responses are summarised in Tables 18 and 19.

Table 18 shows that 94.6 percent of the sampled businesses were financed by owners/managers of the business of which 86.8 percent were financed by businesses owned by sole traders. Businesses in the trading sector also used greater percentage of equity (88.2%) in their business set-up. It is apparent that equity finance was by far the predominant source of initial funding for SMEs. Godfried and Song (2000) in Ghana and Vatnabar (1998) in Australia both indicated that SMEs rely heavily on internal equity finance since credit for start-up enterprises is relatively scarce. Moreover, banks do

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not want to risk lending to new enterprises that do not have a track record of performance.

Table 18: Sources of business financing by business ownership and type

Sources	Equity		Debt		Total	
Business Characteristics	F	%	F	%	F	%
Business ownership						
Sole trader	432	86.8	25	5.0	457	91.8
Partnership	29	5.8	2	0.4	31	6.2
Company	10	2.0	0	0	10	2.0
Total	471	94.6	27	5.4	498	100.0
Business type						
Trading	439	88.2	24	4.8	463	93.0
Manufacturing	21	4.2	2	0.4	23	4.6
Service	11	2.2	1	0.2	12	2.4
Total	471	94.6	27	5.4	498	100.0

n = 500, missing case = 2

Source: Field data, 2012

Table 19: Percentage of debt in current business

Debt (%)	Frequency	Percent
0-10	59	12.32
11-20	215	44.89
21-30	137	28.60
31-40	59	12.32
41-50	5	1.04
51-60	2	0.42
90-100	2	0.42
Total	479	100.00

n = 500, missing case = 21

Source: Field data, 2012

The number of enterprises that reported using debt as a source of finance in current business of between 11-20 percent was 44.89 percent, 137

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(28.60%) owners/managers had 21-30 percent debt in their business. This suggests that owners/managers tend to rely more on internal equity finance at start-up as debt is not readily available at this stage when they have no collateral or a track record of performance. They are able to access external debt finance over time as the business grows and/or their viability can be more readily accessed by debt providers, minimising the risk associated with lending to them.

To further explain this, the sources of debt used in the business was analysed and presented in Table 20. Businesses relied on four different sources of debt: leasing, overdraft, family loan and trade credit. From the statistics, 96 percent of the owners/managers preferred leasing to any source of debt financing.

Table 20: Sources of debt in business

Source	Frequency	Percent
Leasing	480	96.0
Overdraft	11	2.2
Family loan	7	1.4
Trade credit	2	0.4
Total	500	100.0

Source: Field data, 2012

Information readiness

Information readiness is measured by quality of financial information in terms of preparation of financial information, reasons for using financial information, and level of importance attached to information. Results in Table 21 show that 78.8 percent of the businesses prepared financial information out which 72.2 percent were in the trading sector.

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Table 21: Preparation of financial information by the business type

Business Type	Prepare		Do not prepare		Total	
	F	%	F	%	F	%
Trading	361	72.2	104	20.8	465	93.0
Manufacturing	21	4.2	2	0.4	23	4.6
Service	12	2.4	0	0	12	2.4
Total	394	78.8	106	21.2	500	100.0

Source: Field data, 2012

Table 22 shows that 87.3 percent of the owners/managers prepared their own financial information. Other owners/managers used the services of an auditor (4.7%), part-time accountant (4.4%) and full-time accountant (3.6%). Most (80.9%) owners/managers who prepared their own financial information were from the trading sector.

Table 22: Persons who prepared the financial information by business type

Business Type	Owner		Part-time accountant		Full-time accountant		Auditor		Total	
	F	%	F	%	F	%	F	%	F	%
Trading	313	80.9	16	4.1	13	3.4	15	3.9	357	92.2
Manufacturing	14	3.6	1	0.3	0	0.0	3	0.8	18	4.7
Service	11	2.8	0	0.0	1	0.3	0	0.0	12	3.1
Total	338	87.3	17	4.4	14	3.6	18	4.7	387	100.0

n = 500, missing case = 113
Source: Field data, 2012

The purpose for preparing financial information is presented in Table 23. About 76.8 percent of the sampled owners/managers prepared financial information for profit purposes, 74.8 percent prepared financial information to check for the performance of the business, 60.8 percent for management purpose, and 24.6 percent for tax purposes.

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Table 23: Reasons why owners/managers use financial information

Reasons	Yes	No	Total
Profit	76.8	23.2	100.0
Performance	74.8	25.2	100.0
Management	60.8	39.2	100.0
Tax	24.6	75.4	100.0
Support loan	5.4	94.6	100.0
Legal requirement	4.4	95.6	100.0

n = 500

Source: Field data, 2012

Owners/managers who prepared financial information were asked to indicate the level of importance they attached to various pieces of financial information. The responses are summarised in Table 24.

Table 24: Level of importance attached to financial information

Reasons	n	Mean	SD	CV	Minimum	Maximum
Income	500	3.95	0.76	0.19	1	5
Net profit margin	500	3.91	0.77	0.20	1	5
Cash flow statement	500	3.86	0.83	0.22	1	5
Inventory turnover	500	3.85	0.81	0.21	1	5
Budget	500	3.40	1.02	0.30	1	5
Aged debtor balance	500	2.41	1.08	0.45	1	5
Aged creditors balance	500	2.40	1.12	0.47	1	5
Balance Sheet	500	1.95	1.38	0.71	1	5
Return on equity	500	1.81	1.26	0.70	1	5
Return on Assets	500	1.79	1.23	0.69	1	5
Current ratio	500	1.61	1.21	0.75	1	5

Source: Field data, 2012

The respondents considered income and net profit margin as the most important forms of financial information, with mean indices of 3.95 and 3.91 and coefficient of variation of 19 percent and 20 percent respectively. The higher the coefficient of variation, the greater the dispersion in the variables

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(Sarapaivanich, 2003). These were followed by cash flow statement (3.86), inventory turnover (3.85) and budget (3.40). The respondents attached least importance to financial information on current ratio, return on assets and return on equity. These could be explained by the fact that financial information prepared by SMEs generally consisted of income statement and balance sheet (Statement of financial position) (Cameron, 1993). The income statement conveys the enterprise's revenue, expenditure, and net income (or net loss) for a specific time period, which is crucial for decision-makers.

The balance sheet supplies information, which helps users to assess enterprise's ability to increase owners/managers wealth and remaining solvent (Sarapaivanich, 2003). Inventory turnover had a mean index of 3.85 and this could be associated to the high level of education in this sector. Owners/managers made conscious efforts to manage inventory well since it sometimes formed greater percentage to their start up capital. During the data collection process, a number of owners/managers indicated that they did not know or had never heard of other financial information like current ratio, return on asset, and return on equity. Some of them had never prepared other financial information apart from profit and loss statement and balance sheet.

Access to finance

This section discusses the extent to which SMEs in the Accra Metropolis have the capacity to access finance. About 36 percent of respondents indicated that they had ever sought additional finance. Businesses that had ever sought additional capital are presented by their firm size, business type, and business ownership. About 31 percent of the respondents

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were from micro enterprises and mainly in the trading sector (31.7%). Most of these SMEs are sole traders (32.3%) as shown in Table 25.

Table 25: Business ever sought additional capital

Characteristics	Yes		No		Total	
	F	%	F	%	F	%
Firms size						
Micro	149	30.5	267	54.6	416	85.1
Small	25	5.1	45	9.2	70	14.3
Medium	0	0.0	3	0.6	3	0.6
Total	174	35.6	315	64.4	489	100.0
Business type						
Trading	155	31.7	299	61.1	454	92.8
Manufacturing	12	2.5	11	2.2	23	4.7
Service	7	1.4	5	1.0	12	2.5
Total	174	35.6	315	64.4	489	100.0
Business ownership						
Sole trader	158	32.3	290	59.3	448	91.6
Partnership	11	2.2	20	4.1	31	6.3
Company	5	1.0	5	1.0	10	2.0
Total	174	35.6	315	64.4	489	100.0

n = 500, missing case = 11

Source: Field data, 2012

In Table 26, respondents were asked reasons why about 64 percent had never sought additional capital, 62.6 percent of them indicated that they wanted to maintain control over their business, 36.2 percent indicated that they used the money from sales and profit made during operations. A few respondents gave other reasons such as cost of capital being too high (23.2%), the seeking process being complicated (13%), time to raise capital too long (11%), and business not growing (7.2%). None of the owners/managers would like to keep business small.

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Table 26: Reasons why business did not seek additional capital

Reasons	Yes	No	Total
Maintain control of business	62.6	37.4	100.0
Use money from profit	36.2	63.8	100.0
Cost of Capital is high	23.2	76.8	100.0
Seeking process is complicated	13.0	87.0	100.0
Time to raise capital is long	11.0	89.0	100.0
Business is not growing	7.2	92.8	100.0
Assume application will be denied	2.2	97.8	100.0
No knowledge about capital	0.4	99.6	100.0
No info about sources of capital	0.2	99.8	100.0
To keep business small	0.0	100.0	100.0

Source: Field data, 2012

These findings are consistent with the Pecking Order Framework which suggests that the firms that can be funded from internal sources (profitable firms) do not seek money from external sources since the cost of outside capital is greater than the cost of internal funds (Cassar & Holmes, 2003; Holmes & Kent, 2003). Besides, owners/managers are not willing to access outside finance because they do not want to reduce their level of control over their businesses (Connell, 1994).

In Table 27, the major problems encountered when seeking external finance were high interest rate (22.3%), high fees and charges (19.3%) and high cost of accessing outside equity (14.5%). Only 5.2 percent of the respondents could be attributed to the fact that external equity providers were aware of the competition in the market and were adjusting from the bureaucratic way of doing business. Only 116 out of 500 respondents

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mentioned that the majority of their problems was related to external finance because few SMEs used external equity. According to Holmes and Kent (2003), the problems associated with accessing external finance encouraged dependence on internal equity.

Table 27: Problems encountered when seeking external finance

Problems	Frequency	Percent
High interest rate	26	22.3
High fees and charges	22	19.3
High cost of accessing outside equity	17	14.5
Low access to liquid capital	16	13.8
High collateral requirement	9	8.1
Long time to get loans	9	7.8
Banks are not interested in SMEs	8	6.9
Too much paper work	6	5.2
Lack of understanding	2	2.1
Total	116	100.0

n = 174, missing case = 58

Source: Field data, 2012

The owners/managers were asked to indicate the ability of their business to access finance. Table 28 shows that the four surrogates for access to formal debt (ability to achieve low interest rates, ability to achieve low processing costs, ability to achieve low collateral, and ease of handling loan application procedures) had higher mean indices than the two surrogates for access to external equity (ability to access outside equity capital, and ability to achieve low costs of accessing outside equity capital). These findings suggest that the businesses had higher ability to access formal debt than external equity finance.

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Table 28: Ability of business to access finance

Ability to	n	Mean	SD	CV	Min	Max
Achieve low interest rate	500	3.58	0.7	0.2	1	5
Achieve low processing cost	500	3.52	0.73	0.21	1	5
Achieve collateral requirement	500	3.47	0.73	0.21	1	5
Handle application procedures	500	3.43	0.78	0.23	1	5
Access outside equity capital	500	3.41	0.78	0.23	1	5
Achieve low cost of equity capital	500	3.34	0.79	0.24	1	5

Source: Field data, 2012

Performance

The results of owners/managers' satisfaction with performance surrogates and the level of importance attached to the performance surrogates are presented and discussed in this section. Table 29 summarises the descriptive statistics for level of satisfaction with the firm's performance surrogates.

Table 29: Level of satisfaction with the firm's performance

Satisfaction with	n	Mean	SD	CV	Min	Max
Independence	500	3.31	0.75	0.23	1.00	5.00
Job security	499	3.29	0.80	0.24	1.00	5.00
Lifestyle	500	3.27	0.74	0.23	2.00	5.00
Cash flow	500	3.26	0.79	0.24	1.00	5.00
Profitability	500	3.21	0.78	0.24	2.00	5.00
Growth in Sales	500	3.20	0.81	0.25	1.00	5.00
Return on Assets	500	2.44	1.05	0.43	1.00	5.00

Source: Field data, 2012

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As indicated in Table 29, respondents were most satisfied with the level of independence (3.31) associated with operating their business, followed closely by job security (3.29) and lifestyle (3.27). Satisfaction with return on assets had the lowest mean index of 2.44. This finding is in line with those of the study by Jennings and Beaver (1997) and Boohene (2010), which analysed existing studies on small business performance and suggested that owners/managers strive to achieve more in non-financial rewards such as independence and job security than in financial rewards.

In Table 30, business stability had the highest mean index of 4.67, followed by income to look after family (4.52) and profitability and growth in sales accounting for 4.32 and 4.28 respectively. The Ghanaian owners/managers pursued a range of goals, and making money was not necessarily a primary goal. Creating jobs and community development had the lowest mean indices. This is consistent with the results in this study where about 85 percent of the sampled SMEs are micro and small. Creation of jobs seems not to be among the prime goals of small businesses.

Table 30: Level of importance attached to performance surrogates

Level of Importance	n	Mean	Std. Deviation	Min	Max
Business stability	500	4.67	0.60	2	5
Profitability	500	4.32	0.50	3	5
Income to look after family	500	4.52	0.68	1	5
Growth in sales	500	4.28	0.60	1	5
Cash flow	500	4.19	0.62	2	5
Job security	500	4.17	0.67	1	5
Lifestyle	500	4.10	0.59	3	5
Independence	500	4.12	0.61	2	5
Return on assets	500	2.26	1.16	1	5

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Table 30 continued

Level of Importance	n	Mean	Std. Deviation	Min	Max
Creating jobs	500	2.18	1.10	1	5
Contributing to community development	500	2.01	0.89	1	5

Source: Field data, 2012

Partial Least Square analysis of results

Partial Least Square (PLS) analysis was used to estimate parameters for the measurement and structural models. The measurement model explained how the model was tested using reliability and discriminant validity. The structural model explained the hypothesised relationships among the theoretical construct namely investment readiness, access to external finance and performance.

In PLS, there is the need to test for the reliability and validity of the model that was used to measure each construct. This is done using the factor loadings, average variance extract, composite reliability and discriminant validity. From the 500 samples obtained in this study, 174 owners/managers had sought finance in addition to the start-up capital. Therefore, the hypotheses relating to access to finance were analysed using the 174 respondents. The first and third hypotheses were tested using the 174 respondents and the second was tested on all 500 respondents.

Using the 174 samples (see Appendix F), the results revealed high factor loadings for all indicators other than General Experience. The composite reliability for every construct is greater than 0.70, the level suggested by Nunnally (1978). Also the AVE of 0.30 was less than the

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benchmark of 0.4 proposed by Fornell and Larcker (1981), Magner, Welker and Campbell (1996), Hair et al. (2006) and Chin (2010). This result indicates that the indicator should be removed from the experience measurement model in order to improve their reliabilities. Therefore, new measurement model of experience, excluding the indicator with low factor loadings, was tested.

The new results for the measurement model is summarised in Appendix G. Results of the new experience construct revealed an improvement in the reliability of the model as the composite reliability increased from 0.31 to 0.70 and factor loadings of all experience indicators are more than 0.40. This indicates the measures share more variance with the experience construct than with the error variance. The revised measurement model for the experience construct is used to test a new structural equation model.

Discriminant validity of the constructs in the PLS model was evaluated by comparing the square root of the AVE to the correlation between the constructs. This provided an assessment of the extent to which each construct shared more variance with its measures than with other constructs (Hulland, 1999). The results presented in the correlation matrix in Table 31 include correlations among constructs in the off-diagonal cells and the square root of AVE in the diagonal cells. For adequate discriminant validity, the diagonal values should be significantly greater than the off-diagonal values in the corresponding rows and columns.

The diagonal values (the square root of AVE) in Table 31 are all greater than their respective off-diagonal values, indicating adequate discriminant validity. The diagonal value of access to external finance

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matched on itself is greater than all the off-diagonal values (Age, Edu, Exp, Fi, Flr, Gen, Perf, and Size). In other words, for each construct the root of the AVE measures is significantly larger than the latent variable correlation. This demonstrates that the final revised measurement model for all the constructs have adequate discriminant validity.

The results from the preceding analysis of the measurement model signify that the indicators reliably and validly represent the constructs they measure, providing adequate grounds to proceed to the next stage of analysis; testing of the hypothesis for the 174 samples.

Table 31: Discriminant validity for constructs used in the measurement model using 174 samples

CONST.	ACCESS	AGE	EDU	EXP	FI	FLR	GEN	PERF	SIZE
ACCESS	**0.90**								
AGE	0.05	**1.00**							
EDU	0.08	-0.07	**0.88**						
EXP	-0.09	0.53	-0.03	**0.67**					
FI	0.26	0.07	0.25	0.04	**0.94**				
FLR	0.08	-0.10	-0.07	-0.10	0.02	**1.00**			
GEN	-0.02	0.08	-0.03	0.07	-0.21	-0.07	**1.00**		
PERF	0.09	0.21	-0.01	0.17	0.05	-0.10	-0.03	**0.89**	
SIZE	-0.24	0.12	0.05	0.13	0.01	0.30	-0.02	-0.06	**1.00**

Source: Field data, 2012

The 500 sample (see Appendix H), revealed that the composite reliability for every construct is greater than 0.70, the level suggested by Nunnally (1978). These results represent reliable measurements of all constructs. Moreover, all the indicators, except experience indicator, are above the 0.50 loading level, the threshold for factor loadings (Hair et al., 2006). These results require that the indicators with factor loadings of less than 0.50

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should be removed from their respective measurement models in order to improve their reliabilities. Therefore, a new measurement model for experience excluding general experience indicator was tested. The new results for the experience measurement models using 500 samples (see Appendix I) reveal considerable improvement in the reliability of the model as the composite reliability of the model increased from 0.33 to 0.82.

The AVEs of all the constructs are more than 0.50, providing evidence of adequate convergent validity of all constructs. Another assessment for the validity of the measurement models applied in this study is the discriminant validity for constructs, measured by comparing the square roots of AVEs to the correlation between constructs.

Table 32: Discriminant validity for constructs used in the measurement model using 500 samples

CONST	AGE	EDU	EXP	FI	FLR	GEN	PERF	SIZE
AGE	**1.00**							
EDU	-0.04	**0.88**						
EXP	0.53	0.36	**0.82**					
FI	0.17	0.25	0.19	**0.95**				
FLR	-0.08	-0.14	-0.11	-0.01	**1.00**			
GEN	0.08	-0.02	0.00	-0.06	-0.05	**1.00**		
PERF	0.07	0.10	0.12	0.17	-0.06	0.03	**0.88**	
SIZE	0.12	0.02	0.07	0.13	0.13	0.09	0.01	**1.00**

Source: Field data, 2012

Table 32 shows that the diagonal elements are all greater than their respective off-diagonal elements, indicating adequate discriminant validity. The results presented above demonstrate that the measurement model for the

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second hypothesis (SMEs that are investment ready perform better than those that are not investment ready) using 500 samples is reliable and valid.

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CHAPTER SEVEN

INFLUENCE OF INVESTMENT READINESS AND ACCESS TO EXTERNAL FINANCE ON ENTERPRISE PERFORMANCE

Introduction

This chapter examines the relationships between investment readiness and access to finance; investment readiness and performance; and access to finance and performance. The Sobel's test was utilised to test for the indirect influence of investment readiness on performance through access to finance. The structural model was used to test the hypothesised relationships between the theoretical constructs depicted in Figure 1. The test of the structural model includes estimating the path coefficients, t-statistics and the R squared. A summary of the signs, path coefficients, R-squared of the endogenous constructs and results of the hypotheses testing are also presented in this chapter. To prevent counterintuitive results, a traditional regression analysis (Ordinary Least Square) was used to confirm the hypothesised relationships between the theoretical constructs.

Investment readiness on access to finance of Small and Medium-scale Enterprises in Accra Metropolis

Table 33 and 34 shows the hypothesised relationships between the investment readiness variables and access to external finance using both Partial Least Square (PLS) and the Ordinary Least Square (OLS). The path coefficient between age of owner/managers, financial information and financial leverage had significant positive relationship with access to external finance. However, owners/managers' years of experience and the sex had no

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significant relationship with access to external finance. Size of the business recorded a significant relationship with access to external finance, but was not in the expected direction. With the exception of level of education, all others results in Table 34 were same as the results achieved using the PLS.

Table 33: Path Coefficient, *t*-statistics and *p*-values of investment readiness on access to finance using PLS

Path between Unobserved variables	Path Coefficient	*t*-statistics	p-value
AGE -> ACCESS	0.1496**	1.7216	0.0435
EDU -> ACCESS	0.0065	0.6317	0.2642
EXP -> ACCESS	-0.1399	0.7798	0.2183
FI -> ACCESS	0.2538***	3.2385	0.0007
FLR -> ACCESS	0.1655**	2.0528	0.0208
SEX -> ACCESS	0.0392	0.4843	0.3144
SIZE -> ACCESS	-0.2965***	3.0320	0.0014

*** - significant at 0.01 level
** - significant at 0.05 level
Source: Field data, 2012

Table 34: Path Coefficient, *t*-statistics and *p*-values of investment readiness on access to finance using OLS

Path between Unobserved variables	Path Coefficient	Robust Std. Err.	*t*-statistics	p-value
AGE -> ACCESS	0.037***	0.009	4.050	0.000
EDU -> ACCESS	-0.065*	0.036	-1.830	0.067
EXP -> ACCESS	0.013	0.024	0.550	0.581
FI -> ACCESS	0.151**	0.063	2.410	0.017
FLR -> ACCESS	1.256***	0.399	3.150	0.002
SEX -> ACCESS	-0.085	0.203	-0.420	0.674
SIZE -> ACCESS	-0.096***	0.033	-2.870	0.004

*** - significant at 0.01 level
** - significant at 0.05 level
* - significant at 0.10 level

Source: Field data, 2012

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The path coefficient for the relationship between age and access to finance is positive and significant, as the *t*-value is 1.7216 for PLS and 4.050 for OLS. The results indicate that the hypothesis is accepted as the age of owners/managers' has a positive and significant effect on access to finance. This means that younger owners/managers have higher ability to access finance than their older counterparts in the Accra Metropolis. The result is consistent with the findings of Low and Mazzarol (2006), Coleman (2002) and Kabacoff and Stoffey (2001) that older owners/managers are more risk averse than younger owners/managers.

The path coefficient for the relationship between education and access to finance is not significant. This may be associated with the informal nature of the sector and its dominance by retailers of low educational background. Whereas literature underscores the importance of higher education, one does not need a degree to aim for and achieve economic success hence access to finance in the retail sector of Accra Metropolis. If owners/managers can produce the relevant security required by external fund providers, the required funds are released. A female respondent from the focus group discussion had this to say:

> *The banks always ask me to present a business plan. My parents did not send me to school so I don't know what it is and what it means. I have employed a graduate from the university who does that for me. I'm able to access my loan afterwards. I don't need education to access finance. In this kind of business, if you have money you can get the right people to work for you.*

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The results also showed an insignificant negative relationship between experience and access to finance. Contrary to expectation, owners/managers' experience had no effect on access to finance. This finding suggests that experience possessed by owners/managers in the metropolis might not include experience in accessing finance. In other words, even though owners/managers might have managed their businesses for a number of years, they may not have the ability to access finance, to achieve low costs of accessing outside finance, or to accommodate financial accessing procedures.

The path coefficient between financial information and access to finance is significant in the hypothesised direction. This indicates that financial information has a positive and significant effect on access to finance (Tale 33 and 34). As stated in literature, it was expected that financial information would provide owners/managers and financial providers with accurate information useful for the evaluation of enterprise financial situations, and results in better access to finance. The findings suggest that the preparation and use of financial information do not only communicate useful information on SME's financial position but also convey SMEs credit quality to financial providers. This confirms the reason why about 73 percent of the owners/managers prepare and use financial information for decision-making. The explanation for this result reflects the findings of Ratnatunga, Romano and Lourens (1993), Mason and Harrison (2001) and Holmes and Kent (2003) that financial information is required when SMEs are seeking external equity. Also to attract other sources of external equity funds such as angel financing and venture capital, SMEs have to provide good financial information records to demonstrate potential for success.

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There is also a positive and significant relationship between financial leverage ratio and access to finance. It was indeed expected that SMEs with higher financial leverages are more likely to have a lower ability to access external finance. Business financial leverage ratio has significant positive effect on access to finance. Financial leverage ratio denotes the ability of SMEs to access capital market. One of the listing criteria of Ghana Stock Exchange is that businesses have to be in a healthy financial condition and have sufficient working capital. A higher financial leverage ratio may hamper the ability of SMEs to meet this requirement. This in turn reduces their ability to access such finance. All of these factors reduce financial providers' willingness to invest in SMEs. This result is inconsistent with Cassar and Holmes (2003) and Abor and Biekpe (2005) that the higher the financial leverage, the lower the willingness of financial providers to supply finance and thus the lower the ability of the firm to access finance.

The path coefficient for the relationship between sex and access to finance is not significant using both methods. The hypothesis that male owners/managers have a higher ability to access finance than their female counterparts was rejected. Coleman (2000) and Haynes and Haynes (1999) argued that fewer women get loans because women's businesses have a lower demand for credit. Furthermore, many women borrowers are charged relatively higher interest rates because of their relatively smaller loan size. Other studies, however, argue that women get smaller loans than men because they do not satisfy loan eligibility criteria such as physical collateral or salaried guarantor. Bardasi (2008) suggests that a large part of this explanation lies in the sectors women are concentrated in and that this may be due to a

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gender specific constraint such as in access to credit and start-up capital. Kelkar, Nathan, and Jahan (2004) argue that newer norms in favour of women 'as income earners and as owners of resources' are constantly created that gradually bring about a change in women's 'status as dependents'.

There was a negative effect between the size of business and access to finance but this relationship is significant. This is because the path coefficient for the relationship between these two factors is negative but significant with a t-statistics of 3.032 using PLS and 2.870 using OLS. The result suggests that smaller firms have higher ability to access finance than larger firms. However, it was expected that smaller firms are more likely to be denied loans or investments than larger firms since many smaller firms do not publish audited financial information that can be shared with providers of outside finance. A potential explanation for this finding relates to the fact that smaller businesses in this study (73%) prepare and use financial information. Also, about 68 percent of owners/managers prepare this financial information themselves (not using the services of accountants). A male respondent during the focus group discussion had this to say:

> *My business has only five employees, this we all know is very small but I make sure my financial accounts is prepared on monthly basis and audited. This is what my bankers require anytime I need money so I prepare it frequently for them and I get my money.*

Clarke et al. (2003) hinted that another reason could also be the fact that most providers of fund do not do due diligence to customers as expected. This, in most cases, is attributed to the fact that there is competition in the

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industry and any provider of funds might lose customer should they follow the laid down procedures.

Another male respondent lamented:

All that my bankers require is collateral, if I can find a security to support my loan application, I get my money. No bank will ask me questions about the number of employees I have in my business.

This potential explanation concurs with the suggestion of Beck and Demirguc-Kunt (2006) that owners/managers with smaller business size are also in a better position to access finance. They perceived that smaller businesses in many developing countries get around market failures by creating private governance systems in the form of long-term business relationships and tight, ethnically-based, business networks which help them to access fund as and when it is needed.

Access to finance on performance of Small and Medium-scale Enterprises

This section presents results associated with testing the third hypothesis, which examines whether access to finance has an influence on performance. The path coefficient between access to finance and performance in Table 35 and 36 is positive and significant. Access to finance is one of the major obstacles to SME performance. SMEs should be able to perform better if they have a greater ability to access finance. Thus, this hypothesis is accepted. Owners/managers who believed they could overcome the barrier to accessing external finance tended to be more satisfied with their business

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performance in terms of profitability, sales growth, return on assets, cash flow, and job security.

Table 35: Path coefficient, *t*-statistics and *p*-values of access to finance and performance using PLS

Path between Unobserved variables	Path Coefficient	*t*-statistics	p-value
ACCESS -> PERF	0.0778**	1.6515	0.0496

** - significant at 0.05 level
Source: Field data, 2012

Table 36: Path coefficient, *t*-statistics and *p*-values of access to finance and performance using OLS

Path between Unobserved Variables	Path Coefficient	Robust Std. Err.	*t*-statistics	*p*-value
ACCESS -> PERF	0.116**	0.052	2.250	0.025

** - significant at 0.05 level
Source: Field data, 2012

The finding of a positive and significant relationship between access to external finance and performance is in line with results reported by Bhaird and Lucey (2006), Iakovleva (2004), Eeden et al. (2004), Indarti and Langenberg (2004), Bukvic and Bartlett (2003) and Pissarides (1999), that access to finance as a key factor in SME performance.

Investment readiness on performance of Small and Medium-scale Enterprises

To test the effect of investment readiness on performance, three constructs were developed to capture investment readiness in this study: owner/manager readiness, consisting of owners/managers' experience, education, age, sex; business readiness, comprising financial leverage ratio, and size; and information readiness, measured in terms of financial information. It was expected that owners/managers' experience, education,

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business size and financial information would have a positive effect on performance, and that the relationship between owners/managers' age, sex and financial leverage and performance would be negative. The path coefficients, *t*-values and *p*-values for each of the hypothesised relationships associated with the objective are summarised in Table 37 and 38.

Table 37: Path coefficient, *t*-statistics and *p*-values of investment readiness and performance using PLS

Path between Unobserved Variables	Path Coefficient	*t*-statistics	*p*-value
AGE -> PERF	0.1477**	1.7237	0.0427
EDU -> PERF	0.0464	0.8545	0.1966
EXP -> PERF	0.0593	1.2069	0.1140
FI -> PERF	0.1274***	2.9557	0.0016
FLR -> PERF	0.0000	0.0839	0.4666
SEX -> PERF	0.0339	0.7387	0.2302
SIZE -> PERF	0.0030	0.3716	0.3552

*** - significant at 0.01 level
** - significant at 0.05 level
Source: Field data, 2012

Table 38: Path coefficient, *t*-statistics and *p*-values of investment readiness and performance using OLS

Path between Unobserved Variables	Path Coefficient	Robust Std. Err.	*t*-statistics	*p*-value
AGE -> PERF	0.021**	0.011	1.910	0.037
EDU -> PERF	-0.009	0.034	-0.270	0.789
EXP -> PERF	0.0351	0.019	1.210	0.113
FI -> PERF	0.0444***	0.050	2.778	0.003
FLR -> PERF	-0.832	0.564	-1.470	0.141
SEX -> PERF	0.153	0.209	0.730	0.464
SIZE -> PERF	0.037*	0.022	1.680	0.094

*** - significant at 0.01 level
** - significant at 0.05 level
* - significant at 0.10 level

Source: Field data, 2012

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Table 37 and 38 shows the hypothesised relationships between the investment readiness variables and performance of SMEs using both PLS and OLS. The path coefficient between the age of owner/managers, and financial information had significantly positive relationship with performance. There was a slight change in the OLS results to that of the PLS and this could be associated to the different analysis methods used as size of business was positive and significant using OLS but insignificant using PLS. However, owners/managers' level of education, years of experience, financial leverage and sex had no significant relationship with performance.

The path between age and performance is supported, as the *t*-statistics of the path coefficient for the relationship between age and performance is significant and positive. These values reveal that younger owners/managers perform better than their older counterparts. The finding is in consonance with that of Sinha (1996) and Coleman (2002), who reported that younger owners/managers are less risk-averse than their older counterparts and therefore, perform better than older owners/managers. Roberts-Lombard and Chiliya (2012) proposed that the current educational curriculum has entrepreneurship inculcated in it so it is not surprising for younger owners/managers to perform better than older owners/managers since they have more of the knowledge and skills needed to access finance through their higher educational levels.

The path coefficient for the relationship between education and performance is not significant. Education has no significant influence on performance. This may be due to the fact that a large number of respondents have a reasonable level of education - high school and above. The finding was

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surprising given that past research indicates that higher education is associated with higher business performance (Bates, 1997; Mitra & Matlay, 2004; Parker, 2004). Nevertheless, it is consistent with the suggestion of Panpiamrat (2005) that the performance of SMEs does not depend on the educational level of owners/managers. He pointed out that owners/managers need to have knowledge that enables them to understand their businesses. This knowledge cannot be gained only from formal education but also from training on-the-job. Thus, irrespective of their educational levels, owners/managers have to seek practical knowledge relevant to their businesses by continuously reading and listening to experts, attending seminars and learning from other people's experiences.

The relationship between experience and performance is not supported, as the *t*-value of the relationship between experience and performance is not significant. Mazzarol, Volery, Doss and Thein (1999) and Bosma et al. (2004) reported that experience has a significant effect on performance, but this finding was not significant in this study. The potential explanation for this is that the number of years that owners/managers have operated their businesses may not be the only type of experience needed to enhance their business performance. Findings from this study shows that 40 percent of the owners/managers have owned and managed their business for not more than 5 years. Jovanovich (1982) finds that while smaller and younger businesses grow faster than larger and older businesses, smaller and newer businesses on the other hand are less likely to survive than larger and older businesses because its owners are not experienced.

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Financial information was predicted to be positively related to performance. The path coefficient between financial information and performance provides statistically significant and positive results that confirm this hypothesis. In other words, quality financial information positively affects performance. That is, access to accurate, important and timely financial information enhances owners/managers' satisfaction with their businesses on the various performance measures. This analysis indicates that, of the 11 types of financial information considered in this study, business stability and income to look after family are the most widely reasons for preparing financial information for decision-making by SMEs in Ghana. Hughes (2004) argued that SMEs are unable to perform well by just being able to access finance, but that they need to have financial information to manage it. In other words, even if SMEs have sufficient finance, they may lose it simply because they do not have timely financial information on key operating matters that they can draw upon in making sound decisions.

Financial leverage ratio on performance is not supported. This is because the path coefficient for the relationship between financial leverage ratio and performance is not significant. The finding was surprising given that past research indicates that firms underperform when they are highly geared. Cassar and Holmes (2003) suggested that the higher the financial leverage, the higher the costs of capital to SMEs. Some potential explanation for this finding could be associated to the fact that SMEs performance is not only based on finance, finance is a factor but there are other environmental factors like competitor pricing, market demand, inflation, exchange rate and firm specific factors. The study revealed apparently equity finance was by far the

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predominant source of initial funding for SMEs. This finding concurs with the studies of Godfried and Song (2000) in Ghana and Vatnabar (1998) in Australia both indicated that SMEs rely heavily on internal equity finance since credit for start-up enterprises is relatively scarce. Moreover, banks do not want to risk lending to new enterprises that do not have a track record of performance.

The path coefficient for the relationship between sex and access to finance is not significant. This means there is no significant relationship between gender and access to finance. It was expected that male owners/managers of SMEs in Ghana would achieve higher performance than female owners/managers. There are two potential explanations for the finding. Firstly, female owner/manager in Ghana have dominated the sector for much longer periods than male owners/managers due to their lower educational qualifications and lack of access to formal employment (Boohene, 2010). Also female owners/managers, however, are more adaptable to change, more sensitive to the needs of employees, multi-skilled, and have stronger communication skills (Folker, 1999; Knight, 2006).

Most researchers observe a significant relationship between business size and performance. McMahon, (2001b) and Indarti and Langenberg (2004) suggested that larger-sized firms receive more benefits from government regulations, tax law, competition for labour, and financial resources. The finding of this study revealed that there is no significant difference between business size and performance. An explanation to this would be the fact that SMEs in Ghana do not benefit from any governmental support. From the study, only one person has ever benefited from any governmental assistance.

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Another explanation could be how business size was measured in this study. Most studies measured business size using both number of employees and fixed assets. Only number of employees was used to measure business size in this study.

Indirect effect of investment readiness on performance through access to finance

This section presents results associated with testing for indirect influence of investment readiness on SME performance via access to finance. The Sobel test was used to perform this statistical test. The test aimed at seeing if the indirect path from the investment readiness to performance is statistically significantly different from zero (Baron & Kenny, 1986). The results on Table 39 shows that the path coefficient for the indirect effect of age on performance through access to finance is positive and significant at a one-tailed significance level of 0.10.

Table 39: Path coefficient, *t*-statistics and *p*-values of indirect effects using PLS

Indirect Effect	Path Coefficient	t-statistic	p-value
AGE ->ACCESS -> PERF	0.1666*	1.2737	0.1000
EDU ->ACCESS-> PERF	0.0276	0.7828	0.2171
EXP ->ACCESS-> PERF	0.0966	1.2574	0.1046
FI ->ACCESS-> PERF	0.0001***	2.5806	0.0051
FLR ->ACCESS-> PERF	-0.0694	0.0620	0.4753
SEX ->ACCESS-> PERF	-0.0516	0.3659	0.3573
SIZE->ACCESS-> PERF	-0.0525	0.3706	0.3555

*** - significant at 0.01 level
* - significant at 0.10 level
Source: Field data, 2012

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The implication is that younger owners/managers have a higher ability to access finance (that is, ability to achieve lower interest rates, minimise loan processing costs, access finance with low collateral requirements and so on) than older owners/managers. Also, the finding indicates that ability to access finance enhanced performance. This shows that younger owners/managers had higher performance than older owners/managers.

The influence of education on performance through access to finance was not significant. Thus, there was no indirect effect of education on performance through access to finance. The results suggested an insignificant relationship between investment readiness and performance through access to finance. Though this was not in the expected direction, the earlier findings between investment readiness on access to finance and investment readiness on performance showed an insignificant relationship. In Accra, educational level does not impact on access to finance hence performance. Thus the level of education of owners/managers has no relations with access to finance and performance.

The path coefficient for the indirect effect of experience on performance via access to finance was not significant. Although the results indicate that access to finance enhances performance, experience had no impact on access to finance. The number of years the owners/managers had operated the business might not provide an adequate indication of their ability and preparedness to access finance and to improve business performance.

The path coefficient for the indirect effect of financial information on performance through access to finance is positive and significant as shown in Table 39. In other words, quality financial information positively affects

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performance through access to finance. Access to accurate, important and timely financial information enhances owners/managers' satisfaction with their business performance.

The indirect effect of financial leverage ratio on performance through access to finance is not significant. The result suggests that financial leverage ratio has no effect on the access to finance of SMEs. Owners/managers of SMEs in the Accra Metropolis might perceive that finance providers considered other factors such as the assets of the business rather than financial leverage when making decisions about investing in SMEs. Accordingly, there was no performance advantage to SMEs with lower financial leverage ratios through access to finance, as owners/managers did not perceive that having a lower financial leverage would enhance their ability to access finance. This might reflect a level of ignorance on the part of owners/managers regarding what finance providers considered in making their investment decisions, and justified the importance of training as a means of enhancing investment readiness.

The indirect effect of gender on performance via access to finance was not significant. Thus, gender had no significant effect on performance through finance. Though this was not in the expected direction, several studies including Boohene (2010) have hinted that female owners/managers are now dominating this sector due to the lower level of education.

The path coefficient for the indirect effect of business size on performance through access to finance was also not significant. As explained earlier, business size is not significant since most owners/managers' main goal of doing business is not about growth and profit but rather stability and

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survival. Owners/managers would mainly rely on internal equity since most of these businesses do not require huge capital.

Evaluation of structural model results

After establishing the appropriateness of the measures, the next step is to provide evidence supporting the theoretical model. The predictive power of the structural model was assessed by the R square values of the endogenous constructs. The R square from the bootstrapping procedure suggested that access to finance and investment readiness contributed 31 percent of the variance in the model. The Average Variance Accounted (AVA) for the R square was 22 percent (see Appendix J), and greater than the benchmark of the recommended 10 percent (Falk & Miller, 1992). These results indicate the soundness of the model.

Conclusion

The hypothesised models were tested using PLS and OLS. Based on the factor loadings, some items were dropped. These were remeasured to confirm their reliabilities. The structural model in this study was then assessed to be sound. The results of the tested hypotheses were summarised on the basis of the objectives of this study.

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CHAPTER EIGHT

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the summary, conclusions and recommendations of the study as well as the contribution to knowledge and areas for future research. The summary comprises what the study set out to do, the methodology used and the key findings. The conclusions are derived from the key findings while the recommendations are based on the findings and the conclusions.

Summary

This study sought to examine the investment readiness, access to external finance and performance of SMEs in the Accra Metropolis. To achieve this general objective, six specific objectives were formulated. The study was guided by both the positivist and the interpretive research philosophies, hence the use of mixed methods. Data on investment readiness, access to external finance and performance of SMEs were collected in the Accra Metropolis.

Stratified sampling procedure was used to select the sample from each of the eleven sub-metropolis, a total of 500 owners/managers of SMEs were surveyed using questionnaire consisting of open-ended and closed-ended questions. Besides, eight groups of 14 members each were organised for focus group discussions by the use of focus group discussion guide. Primary and secondary data sources were used for this study. Structural Equation Model using Partial Least Square and Ordinary Least Square were used to test the

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hypotheses and to meet the objectives of the study. Descriptive and content analysis were also used for data analysis.

The key findings as they related to the specific objectives of the study have been summarised as follows:

1. The sampled SMEs in the Accra Metropolis were male dominated and the majority (92%) of the owners/managers favoured sole proprietorship as the legal form of business ownership. Nearly one-quarter of the enterprises were into clothing, jewellery, textiles and fashion. About 40 percent of owners/managers have managed their business for not more than five years. About 44 percent of the employees were drawn from close family relations. Many SMEs had high growth rate and stiff competition and limited access to finance as the major problems. Less than half (46.2%) of the SMEs were aware of governmental assistance but only one SME had benefited from such assistance.
2. About 69 percent of the SME owners/managers had less than 10 years working experience while only 1.3 percent had more than 30 years working experience. About 19.3 percent of the owners/managers had had a form of tertiary education and 21.3 percent of owners/managers were aged between 31-35 years. The SMEs were mainly financed using equity sources and 44.9 percent use debt financing of between 11-20 percent in business.
3. Age of owners/managers, financial information, and financial leverage ratio had significantly positive relationships with access to external finance. However, owners/managers' level of education, years of

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experience and the sex of owners/managers had no significant relationship with access to external finance. Size of a business recorded a significant relationship with access to external finance, but was not in the expected direction. Financial information recorded the highest influence on access to external finance, as the t-value was 3.24 with a p-value of 0.00.

4. The performance of SMEs was significantly and positively influenced by access to external finance and in the expected direction. Access to external finance played a major role in the performance of SMEs, finance was a fundamental requirement for businesses to thrive and when accessed might increase the confidence of owners/managers' in the firm's financial situation. These in turn would enhance investment in the business, operations, and ultimately owner/manager satisfaction with the firm's profitability, growth in sales, return on assets, and stability.
5. The age of owners/managers and financial information had positive and significant relationships with performance. The level of education of owners/managers, years of experience of owners/managers, financial leverage ratio, sex of owners/managers and size of business, all recorded an insignificant relationship with performance of SMEs.
6. The indirect relationship between investment readiness of owners/managers and performance of SMEs through access to external finance also recorded a positive and significant relationship between age of owners/managers and financial information on performance through access to external finance. All other variables (level of

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education, years of experience, financial leverage ratio, sex of owners/managers and size of business) recorded an insignificant relationship with performance through access to external finance.

Conclusions

A growing interest in the factors associated with access to external finance and performance of SMEs has long been recognised. The findings indicate that owners/managers of SMEs in the Accra Metropolis feel more confident about their ability to contribute to economic development by operating profitable, efficient and growing businesses if they also have confidence in their ability to access external finance. Ability to access external finance is therefore important if SMEs are to contribute to economic development. Based on the results of this study, it is reasonable to conclude that the ability of SMEs to access external finance can be explained by Western studies. As expected, access to external finance is significantly related to the performance of SMEs in the Accra metropolis.

The study reveals that investment readiness is a crucial factor influencing access to finance of SMEs. The characteristics of investment readiness like age of owners/managers, financial information, financial leverage and business size significantly related to access to finance. The results indeed confirm the prediction that these characteristics affect the ability to access finance. For business readiness, the results show that business size enables owners/managers to overcome the disadvantages of smallness and newness, and increases their ability to access finance. Again, in relation to business readiness, it appears from the present study that owners/managers of

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SMEs with lower financial leverage ratio have greater ability to access finance. SMEs with higher financial leverage ratio may hamper the ability to meet the requirement of financial providers. For business information, quality financial information was found to be important in pursuit of the performance goals of growth and profitability.

The findings support the contention that developing the investment readiness of SMEs will increase their ability to access external capital. Government response to the financial problems of SMEs through policies that interfere with free market operations of financial markets (that is interventions that increase the supply of funds through direct financial subsidies) could be counter-productive to the performance of SMEs. Such policies disrupt the signalling effect of incentives on productive SME activities. Instead the SME sector will be well served by programmes that enable SMEs improve their investment readiness through preparation and use of quality financial information in making decisions about financial requirements and use. These findings suggest that improving the investment readiness of SMEs in the Accra Metropolis not only increases their ability to access finance but also enhances their performance.

Recommendations

Based on the findings and conclusions, the following recommendations are made:

1. The government should support SMEs by making assistance programmes known to the owners/managers and also develop programmes to enhance investment readiness amongst SMEs. SMEs

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should be encouraged to join the various promotional institutions and the knowledge acquired from the promotional institutions should be implemented by the SMEs to ensure the growth of their enterprises.

2. Intervention programmes of promotional institutions should include the reduction in the cost of inputs and managerial training to develop the right skills. This calls for training in proper record-keeping and effective use of information from financial records to make and support decisions for finance and to monitor the use of finance. Exposure to information technology resources that simplify the record-keeping process is also necessary.
3. Given the relatively low level of education among owners/managers, training needs and knowledge requirements should be met through highly participatory, innovative and material-less techniques. Peer group training should be encouraged. More flexible forms of skill training should be encouraged and made available to SMEs. Educational training system drawn by promotional institutions should incorporate SME long term growth and development. Institutions like the National Board for Small-scale Industries, Business Advisory Centre, Association of Ghana Industries and consultants can play significant roles in this regard.
4. The procedures involved in seeking external finance should be simplified. The procedure can be made simple by reducing the paperwork involved in accessing external finance. This would encourage owners/managers with lower level of education to access

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external finance without having to go through the rigid procedures to accessing external finance.

5. Promotional institutions should make owners/managers aware of the increased financial risk to their business as financial leverages increase, and that this in turn reduces their attractiveness to finance providers.

6. The creation of an alternative investment market (AIM) for SMEs would help them to access funds without having to pay the huge interest charges on external financing. The AIM should operate like the Ghana Stock Exchange but directed towards the activities of only small and medium businesses. This would enhance the performance of SMEs in the area hence national development.

Contribution to knowledge

The study's contributions to knowledge include:

1. The results from the descriptive and inferential statistics indicated that the Pecking Order Framework and the agency theory, developed in Western literature, are applicable in the Ghanaian context. It was noted that internal equity is the predominant source of finance for growing SMEs. Once the various sources of internal equity become exhausted, firms resort to debt finance and then to external equity, only if absolutely necessary and if this option is available to them. Their particular preference order for the choices of financing is consistent with the Pecking Order Framework. A major contribution of this study is the analyses of the application of the above theories to SMEs' in the

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Accra Metropolis; in particular the extent to which access to finance is influenced by investment readiness of SMEs.

2. This study develops a model that links the investment readiness factors to access to finance and the performance of SMEs. It integrates various views on the direct effect of investment readiness on access to finance, the direct effect of investment readiness on the performance of SMEs, and the indirect effect of investment readiness on the performance of SMEs through access to finance. The study produced an empirical model to test the hypothesised relationships among the factors in the theoretical model. The three dimensions of investment readiness provided a holistic analysis of the impact of investment readiness factors on SME access to finance.
3. A methodological contribution to this study is the measurement of firm performance. A variety of measures have been used to represent business performance. This study adds to growing body of knowledge that explores alternative measurement of performance in small firms. The performance indicators adopted in this research measure the contribution of small firms to economic development in a transitional economy context. Performance in this study was measured in terms of both financial and non-financial goals in order to capture the whole picture of SME performance in the Accra Metropolis. Small and medium firms rarely maintain records but play a vital role in economic development, by contributing to income generation, job creation, community development and in particular poverty reduction. Further, observed variables for access to finance were developed from existing

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literature. The following constraints to accessing finance were identified and adopted: access to outside equity capital, costs of credit, loan processing costs, collateral requirements, and loan accessing procedures. Similarly, the observed variables for investment readiness were developed from prior literature. From the review of literature, owner/manager readiness, business readiness and information readiness were the three dimensions developed to measure investment readiness.

4. Research into SMEs usually employs multiple regression analysis or MANOVA or ANOVA to evaluate access to finance and performance. Few have used modern statistical techniques such as SEM to test these relationships. This study, however, breaks new ground by presenting a major and bold attempt in applying both PLS and OLS to analyse data on SMEs and compare the results for discussions. Not many empirical studies in SME literature have used these methods and Sobel's test simultaneously to examine the direct and indirect influence of investment readiness on access to finance through the performance of SMEs. Using PLS provided a means to overcome the discrepancies in measurement errors and the multi-collinearity issues often associated with statistical analyses based on regression.

Areas for future research

The study has identified the following areas for further study in the Accra Metropolis:

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1. The research framework and hypothesis for this study could be expanded and modified to include the influence of environmental factors on business performance.
2. This study was restricted to only manufacturing and trading. Future research should also explore whether the investment readiness effect is applicable to other sectors such as primary stage of production in the country. This could provide further insight into the role of governments in enhancing SMEs' ability to access finance and hence their performance.
3. In addition, there is the need to duplicate the research in other parts of Ghana to confirm if the results of this research can be generalised across the whole country. This study can also be carried out in other parts of Africa for comparative purposes.
4. Due to the cross sectional nature of the data collected, the possibility of time lapse between the factors that impact on firm performance was not taken into consideration. It is therefore, suggested that future research use longitudinal data, as a long time lapse may provide greater insight into the effects of individual and organisational variables on firm performance.

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APPENDICES

APPENDIX A

QUESTIONNAIRE FOR OWNERS AND MANAGERS

Introduction

This questionnaire is being used to elicit information on investment readiness, access to external finance and performance of SMEs in the Accra metropolis as part of the requirements for the award of Doctor of Philosophy in Development Studies in the University of Cape Coast. Your firm has being selected for this purpose. Kindly complete the questionnaire by ticking the appropriate boxes or provide answers in the spaces provided. You are assured of confidentiality and anonymity on information provided. Thank you for your cooperation.

Section 1: Characteristics of SMEs

Please tick √ the appropriate box that corresponds to your answer to each question.

1. Which of the following best describes the form of your business ownership?

☐ Sole trader ☐ Partnership ☐ Company ☐ Other (Please specify) .....

2. What is your business type(s)? (Please tick √ as many as are relevant to you)

☐ Trading ☐ Manufacturing ☐ Service ☐ Other (Please specify) .....

3. What is (are) your business area(s)? (Please tick √ as many as are relevant to you)

☐ Grocery/Supermarket ☐ Agricultural products ☐ Health products

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☐ Appliances ☐ Clothing, textile, jeweller ☐ Furniture, wood and paper ☐ Educational

☐ Other (Please specify) .....

4. Please indicate the number of employees you currently have in the business.

Employees type	**No. of employees**
Full time	
Part time and casual	

5. How many of your employees fall into the following categories?

Categories of Employees	**No. of employees**
Close family members	
Distant relations	
Friends	
Community	

6. For how long has your business been in operation?

.....

7. Mention some of the problems faced by SMEs in the Accra Metropolis.

.....

.....

.....

.....

.....

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8. Are you aware of any governmental assistance to SMEs in this metropolis?

☐ Yes ☐ No

9. If Yes, has your business ever benefited from any of these assistance?

☐ Yes ☐ No

10. Please mention any of these governmental assistance that your business has benefited from

.....

.....

.....

Section 2: Personal Details

11. What is your sex?

☐ Male ☐ Female

12. What is your marital status?

☐ Married ☐ Single ☐ Divorced ☐ Separated

☐ Widowed

13. How old were you when you started this business?

.....

14. What is your highest educational qualification or nearest equivalent?

☐ No education ☐ Primary school ☐ Junior High School or equal

☐ Senior high school or equal ☐ Tertiary

☐ Other (Please specify) .....

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15. Which area(s) did you major in, if highest education level is above JHS/ Middle School?

☐ Business ☐ Arts ☐ Sciences ☐ Vocational/ Technical

☐ Other (Please Specify).....

16. Did you have any working experience before you commenced your current business?

☐ Yes ☐ No

17. If answer to question (16) is yes, how many years of experience did you have before starting your current business?

.....

.....

18. Does your business have an existing business plan?

☐ Yes ☐ No

Section 3: Capability to access external finance

19. How was your business financed?

.....

20. What were the sources of debt at start-up of this business? (Please tick √ as many as are relevant to you)

☐ Trade credit

☐ Leasing

☐ Bank loan

☐ Others (Please specify)

.....

☐ Overdraft

☐ Family loan

☐ Bank overdraft

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21. What percentage of your start-up capital was debt (both long- and short-term)? .....

22. What were the sources of equity at start-up of this business? (Please tick √ and complete as many as are relevant to you)

☐ Personal saving

☐ Family and friends

☐ Angel financing

☐ Venture capital

☐ Others (Please specify) .....

23. Has your business ever sought additional capital?

☐ Yes ☐ No

24. If No, are there any reason(s) why your business has never sought additional capital? (Please tick √ as many as are relevant to you)

☐ Would like to keep business small ☐ Would like to maintain control of the business

☐ Cost of capital is high ☐ Seeking process is complicated

☐ Time to raise capital is long ☐ Can get money from retained earning

☐ Business is not growing ☐ Do not know how to access capital

☐ Assume application would be denied ☐ Do not have information about sources of capital

☐ Other (Please specify)

.....

25. If answer to question 23 is Yes, what was the purpose(s) of seeking additional capital? (Please tick √ as many as are relevant to you)

☐ Prevent liquidity problem ☐ Increase the level of current assets

☐ Purchase fixed assets

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☐ Replace existing assets ☐ Re-financing current debt

☐ Personal use

☐ Other (Please specify)

.....

26. What types of additional capital did you seek? (Please tick √ all applicable boxes whether or not you were successful in obtaining additional capital)

☐ Personal saving ☐ Plough back profit ☐ Family and friends ☐ Leasing

☐ Venture capital ☐ Issue of share ☐ Trade credit from suppliers

☐ Family loan ☐ Bank Overdraft ☐ Bank loan

☐ Hire purchase

☐ Others (Please specify) .....

27. What problems did you encounter when trying to obtain the capital? (Please tick √ as many as are relevant to you)

☐ Lack of access to equity capital ☐ High costs of accessing outside equity ☐ High interest rates

☐ High fees and charge

☐ Banks are not interested in small businesses

☐ Time to get loan is too long ☐ High collateral requirements

☐ Too much paperwork requirement ☐ Complex application and processing procedures

☐ Lack of understanding of the various sources of capital available

☐ Other (Please specify) .....

28. If you failed to access additional capital, what were the reasons given by capital providers? (Please tick √ as many as are relevant to you)

☐ Lack of collateral ☐ Do not meet requirement

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☐ Poor quality financial information ☐ Poor prospects for management

☐ Poor business performance ☐ Insufficient information

☐ Lack of experience ☐ Poor credit record

☐ New business start-up ☐ No reason given

☐ No business plan ☐ Gender issues

☐ Other (Please specify)

.....

29. What percentage of your current capital is debt (both long- and short-term)? .....

30. What are the sources of debt currently used in your business? (Please tick √ as many as are relevant to you)

☐ Trade credit ☐ Overdraft

☐ Leasing ☐ Family loan

☐ Short-term loan ☐ Long-term loan

☐ Others (Please specify) .....

31. How would you classify the importance of the following factors in accessing capital? (Please circle a number for each of the statements below, using the following scale)

1=Not at all Important 2=Somewhat Important 3=Moderately Important

4=Important

5=Very Important

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34. If Yes, who prepared the financial information

☐ Owner ☐ Part time accountant ☐ Full time accountant

☐ Auditor

35. What is the purpose of preparing financial information? (Please tick √ as many as are relevant to you)

☐ Tax purpose ☐ Management ☐ To ascertain profit

☐ Check performance ☐ Support loan application

☐ Legal requirement

☐ Other (Please specify)

.....

36. Do you use financial information to support your business decisions?

☐ Yes ☐ No

If yes, please skip question 36

37. Please evaluate the extent to which you agree or disagree with the following reasons as to why you do not use financial information.(Please circle a number for each of the statements below, using the following scale)

1=Strongly Disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly Agree

a. Business does not keep financial information records	1	2	3	4	5
b. Financial information was inaccurate	1	2	3	4	5
c. Financial information was not up to date	1	2	3	4	5
d. Financial information contained inadequate information	1	2	3	4	5

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e. Financial information was incomplete 1 2 3 4 5

f. Inadequate knowledge and skill for using financial information provided 1 2 3 4 5

38. How would you classify the importance of the following financial information to your business?

(Please circle a number for each of the statements below, using the following scale)

1=Not at All Important 2=Somewhat Important 3=Moderately Important 4=Important 5=Very Important

a. Income	1	2	3	4	5
b. Balance sheet	1	2	3	4	5
c. Cash flow statement	1	2	3	4	5
d. Budget	1	2	3	4	5
e. Aged debtors balances	1	2	3	4	5
f. Aged creditors balances	1	2	3	4	5
g. Current ratio	1	2	3	4	5
h. Inventory turnover	1	2	3	4	5
i. Return on assets	1	2	3	4	5
j. Return on equity	1	2	3	4	5
k. Net profit margin	1	2	3	4	5

39. What is the most frequent basis for which your business prepares and computes the following financial information?

(Please circle a number for each of the statements below, using the following scale)

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1= Never 2=Monthly 3=Quarterly 4=Half Yearly 5=Annually

a.	Income	1	2	3	4	5
b.	Balance sheet	1	2	3	4	5
c.	Cash flow statement	1	2	3	4	5
d.	Budget	1	2	3	4	5
e.	Aged debtors balances	1	2	3	4	5
f.	Aged creditors balances	1	2	3	4	5
g.	Current ratio	1	2	3	4	5
h.	Inventory turnover	1	2	3	4	5
i.	Return on assets	1	2	3	4	5
j.	Return on equity	1	2	3	4	5
k.	Net profit margin	1	2	3	4	5

40. How would you classify the accuracy of the following financial information in your business? (Please circle a number for each of the statements below, using the following scale)

1=Not at All Accurate 2=Somewhat Accurate 3=Moderately Accurate 4=Accurate 5=Very Accurate

a.	Income	1	2	3	4	5
b.	Balance sheet	1	2	3	4	5
c.	Cash flow statement	1	2	3	4	5
d.	Budget	1	2	3	4	5
e.	Aged debtors balances	1	2	3	4	5
f.	Aged creditors balances	1	2	3	4	5
g.	Current ratio	1	2	3	4	5
h.	Inventory turnover					

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i. Return on assets 1 2 3 4 5

j. Return on equity 1 2 3 4 5

k. Net profit margin 1 2 3 4 5

41. Does your business provide the following financial information on timely basis? (Please circle a number for each of the statements below, using the following scale)

1=Not at All on Time 2=Somewhat on Time 3=Moderately on Time

4=On Time

5=Always on Time

a. Income 1 2 3 4 5

b. Balance sheet 1 2 3 4 5

c. Cash flow statement 1 2 3 4 5

d. Budget 1 2 3 4 5

e. Aged debtors balances 1 2 3 4 5

f. Aged creditors balances 1 2 3 4 5

g. Current ratio 1 2 3 4 5

h. Inventory turnover 1 2 3 4 5

i. Return on assets 1 2 3 4 5

j. Return on equity 1 2 3 4 5

k. Net profit margin 1 2 3 4 5

42. Please evaluate the extent to which you agree or disagree with the following reasons for explaining why you used financial information to support your business decisions? (Please circle a number for each of the statements below, using the following scale)

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1=Strongly Disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly Agree

a. It provided useful information to making decisions	1	2	3	4	5
b. Financial information was available	1	2	3	4	5
c. Financial information was accurate	1	2	3	4	5
d. Financial information was up to date	1	2	3	4	5
e. Financial information contained adequate information needed	1	2	3	4	5

Section 5: Measures of performance

43. How would you indicate your satisfaction in regard to the following factors over the previous two financial years? (Please circle a number for each of the statements below, using the following scale)

1=Strongly Dissatisfied 2=Dissatisfied 3=Neutral 4=Satisfied 5=Very Satisfied

a. Satisfaction with profitability	1	2	3	4	5
b. Satisfaction with growth in sales	1	2	3	4	5
c. Satisfaction with return on assets	1	2	3	4	5
d. Satisfaction with cash flow	1	2	3	4	5
e. Satisfaction with your lifestyle	1	2	3	4	5
f. Satisfaction with your independence	1	2	3	4	5

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g. Satisfaction with security in your job 1 2 3 4 5

44. By what percentage has your business grown in sales in the past two years?

☐ Less than 0% ☐ 0-10% ☐ 11-20% ☐ 21-30% ☐ 31-40%

☐ 41-50% ☐ 51-60% ☐ 61-70% ☐ 71-80% ☐ 81-90%

☐ 91-100% ☐ above 100%

45. By what percentage has your profit grown for the past two years?

☐ Less than 0% ☐ 0-10% ☐ 11-20% ☐ 21-30% ☐ 31-40%

☐ 41-50% ☐ 51-60% ☐ 61-70% ☐ 71-80% ☐ 81-90%

☐ 91-100% ☐ above 100%

46. How likely is it that you will still be running this business in two years' time?

☐ Not at All Likely ☐ Somewhat Likely ☐ Moderate Likely ☐ Likely

☐ Very Likely

47. How would you classify the importance of the following motives in running your business? (Please circle a number for each of the statements below, using the following scale)

1=Not at All Important 2=Somewhat Important 3=Moderately Important 4=Important 5=Very Important

a. Profitability	1	2	3	4	5
b. Growth in sales	1	2	3	4	5
c. Return on assets	1	2	3	4	5
d. Cash Flow	1	2	3	4	5
e. Lifestyle	1	2	3	4	5

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f. Independence	1	2	3	4	5
g. Job security	1	2	3	4	5
h. Business Stability	1	2	3	4	5
i. Income to look after family	1	2	3	4	5
j. Creating Jobs	1	2	3	4	5
k. Contributing to community development	1	2	3	4	5

THANK YOU VERY MUCH FOR TAKING THE TIME TO COMPLETE THIS

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APPENDIX B

FOCUS GROUP DISCUSSION GUIDE

Introduction of Moderator and Purpose of Discussion

I am a postgraduate student from the Institute for Development Studies, University of Cape Coast. First of all let me thank you for the time you have made to come here today. The purpose of our discussion is to find out what you personally think about the matters we are going to discuss. I am acting here not as an expert or specialist for the matters in question intending to teach you something or answer your questions. On the contrary, you yourselves will be the experts today, and, therefore, I would like to hear what your personal ideas are. The responses will be used for purely academic purposes. Your confidentiality is greatly assured.

Discussion Procedure

Let me explain some of the basic rules for the conduct of our discussion.

1. First, our discussion will take approximately two hours and will be tape recorded. To avoid any failures (like, any break in recording), my assistant is present here to make his notes as well. I want to assure you that no one, except the investigation group, would ever hear anything you could say here. Prior to preparation of the report, your opinions will be summarized, and your names will never be mentioned anywhere.
2. Further, we would like to hear your opinions regarding every issue which will be discussed from the viewpoint of your own experience.

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During discussions no answers would be treated as incorrect, therefore, please, feel absolutely free to say everything you think.

3. It is very important for us to hear each of you. You are absolutely not required to answer each question, but, please, try to express your thoughts anytime you have something to say. Besides, allow other participants to speak as well. You are kindly requested to avoid discussing any other matters unrelated thereto so that all of you could hear and understand what we are talking about.

Introduction of Participants

Let us start by introducing each other. Please, mention your name, your occupation and the nature of business. I will start with myself.

1. How do you define performance?
2. What are the factors that influence performance?
3. Mention some things that you think you have done well to increase the performance of your business.
4. How will you describe the characteristics of SMEs within this metropolis?
5. Please, mention some of the problems faced by SMEs within this metropolis.
6. Are you aware of any governmental assistance to SMEs in this metropolis?
7. Please mention any of this governmental assistance.
8. Mention some source of finance available to SMEs.
9. Have you ever sought additional capital?
10. How many of you were successful?

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11. For those who were not successful, what reason did the capital provider give?

12. How many of you prepare financial information?

13. For what purpose do you prepare financial information?

Thank you very much for making the time to participate

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APPENDIX C

BREAKDOWN OF THE ELECTORAL AREAS FOR THE SUB-METROS

Sub-metros	Electorates
Ashiedu Keteke	Kinka, Ngleshie and Korle Wokon
Osu Klottey	Kinkawe, Osu Doku, Ringway Estate, Alata, official Town/Odorna, Adabraka/Tudu and Asylum Down
Ayawaso East	Kanda, Nima West, Mamobi East, Mamobi West and Kwao Tsuru.
Ayawaso Central	Kokomlemle, Aryee Diki, Nima East, Kotobabi and Alajo.
Ayawaso West	Abelemkpe, Dzorwulu, Roman Ridge/Airport Residential Area, Okponglo and Legon
Ablekuma South	Gbebu, Mansralor, Mampong Okai, Korle Bu, Korle Gonno, Mamprobi, New Mamprobi, and Chorkor.
Ablekuma Central	Abossey Okai, Mataheko, Gbortsui, Laterbiokoshie and Nnenmeete
Ablekuma North	West Darkuman, East Darkuman, Kwashieman, Odorkor and Otaten
Okai Koi North	Wuoyeman, Blema Gor, Gbemomo, Nii Boiman, Akweteman and Anumle
Okai Koi South	Awudome, Kaatsean, Bubi, Gonten, Bubuashie and Mukose
La	Kaajaano, Laa-Kpanaa, New Mantiase, Ado-Betor and La-Koo

Source: Ghana Statistical Service (2005)

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APPENDIX D

BREAKDOWN OF THE ELECTORAL AREAS FOR THE SUB-METROS

1. Ashiedu Keteke - It consists of three electoral areas - Kinka, Ngleshie and Korle Wokon.
2. Osu Klottey - It consists of seven electoral areas Kinkawe, Osu Doku, Ringway Estate, Alata, official Town/Odorna, Adabraka/Tudu and Asylum Down.
3. Ayawaso East - It consists of five electoral areas Kanda, Nima West, Mamobi East, Mamobi West and Kwao Tsuru.
4. Ayawaso Central - It consists of five electoral areas' Kokomlemle, Aryee Diki, Nima East, Kotobabi and Alajo.
5. Ayawaso West - It consists of five electoral areas Abelemkpe, Dzorwulu, Roman Ridge/Airport Residential Area, Okponglo and legon
6. Ablekuma South - It consists of eight electoral areas Gbebu, Mansralor, Mampong Okai, Korle Bu, Korle Gonno, Mamprobi, New Mamprobi, and Chorkor.
7. Ablekuma Central - It consists of five electoral areas Abossey Okai, Mataheko, Gbortsui, Laterbiokoshie and Nnenmeete
8. Ablekuma North - It consists of five electoral areas West Darkuman, East Darkuman, Kwashieman, Odorkor and Otaten
9. Okai Koi North - It consists of six electoral areas Wuoyeman, Blema Gor, Gbemomo, Nii Boiman, Akweteman and Anumle

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10. Okai Koi South - The Sub-Metro is composed of six Electoral Areas namely: Awudome, Kaatsean, Bubi, Gonten, Bubuashie and Mukose
11. La - It consists of five electoral areas' Kaajaano, Laa-Kpanaa, New Mantiase, Ado-Betor and La-Koo.

APPENDIX E

AREA OF EDUCATIONAL SPECIALISATION

Area	Frequency	Percent
Business	124	24.8
Arts	54	10.8
Sciences	40	8.0
Vocational/technical	99	19.8
Below JHS	183	36.6
Total	500	100.0

APPENDIX F

FACTOR LOADINGS, AVERAGE VARIANCE EXTRACTED, AND COMPOSITE RELIABILITY USING 174 SAMPLES

Variables	Factor Loadings
Performance (PERF):	
(Composite Reliability = 0.96, AVE = 0.80	
Satisfaction with profitability (PERF1)	0.95
Satisfaction with growth in sales (PERF2)	0.95
Satisfaction with return on assets (PERF3)	0.53
Satisfaction with cash flow (PERF4)	0.97
Satisfaction with lifestyle (PERF5)	0.95
Satisfaction with independence (PERF6)	0.93
Satisfaction with job security (PERF7)	0.91

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Access to Finance (ACCESS):	
(Composite Reliability = 0.96, AVE = 0.80)	
Access outside equity capital (ACCESS1)	0.54
Achieve low costs of accessing outside equity capital (ACCESS2)	0.96
Achieve low interest rate (ACCESS3)	0.97
Achieve low processing costs (ACCESS4)	0.96
Achieve low collateral requirements (ACCESS5)	0.95
Handle loan application process (ACCESS6)	0.92
Financial Information (FI):	
(Composite Reliability = 0.96, AVE = 0.89)	
Accuracy of Financial information (ACCU)	0.95
Importance of Financial information (IMPO)	0.93
Timeliness of Financial information (TIME)	0.95
Experience (EXP)	
(Composite Reliability = 0.31, AVE = 0.30)	
Entrepreneurial Experience (EEXP)	0.62
Industry Experience (IEXP)	0.65
General Experience (GEXP)	-0.31
Education (EDU)	
(Composite Reliability = 0.88, AVE = 0.78)	
Highest educational level (EDU 1)	0.99
Area of specialisation (EDU 2)	0.76

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APPENDIX G

FACTOR LOADINGS, AVERAGE VARIANCE EXTRACTED, AND COMPOSITE RELIABILITY USING 174 SAMPLES FOR EXPERIENCE (REVISED MEASUREMENT MODEL)

Experience (EXP)	Factor Loadings
(Composite Reliability = 0.70, AVE = 0.44)	
Entrepreneurial Experience (EEXP)	0.60
Industry Experience (IEXP)	0.73

APPENDIX H

FACTOR LOADINGS, AVERAGE VARIANCE EXTRACTED, AND COMPOSITE RELIABILITY USING 500 SAMPLES

Variables	Factor Loadings
Performance (PERF):	
(Composite Reliability = 0.96, AVE = 0.78	
Satisfaction with profitability (PERF1)	0.93
Satisfaction with growth in sales (PERF2)	0.92
Satisfaction with return on assets (PERF3)	0.52
Satisfaction with cash flow (PERF4)	0.93
Satisfaction with lifestyle (PERF5)	0.95
Satisfaction with independence (PERF6)	0.95
Satisfaction with job security (PERF7)	0.91
Financial Information (FI):	
(Composite Reliability = 0.97, AVE = 0.91)	
Accuracy of Financial information (ACCU)	0.96
Importance of Financial information (IMPO)	0.94
Timeliness of Financial information (TIME)	0.96
Experience (EXP)	
(Composite Reliability = 0.33, AVE = 0.33)	
Entrepreneurial Experience (EEXP)	0.53
Industry Experience (IEXP)	0.90
General Experience (GEXP)	0.35
Education (EDU)	

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(Composite Reliability = 0.87, AVE = 0.78)	
Highest educational level (EDU 1)	0.99
Area of specialisation (EDU 2)	0.75

APPENDIX I

FACTOR LOADINGS, AVERAGE VARIANCE EXTRACTED (AVE), AND COMPOSITE RELIABILITY USING 500 SAMPLES FOR EXPERIENCE (REVISED MEASUREMENT MODEL)

Experience (EXP)	Factor Loadings
(Composite Reliability = 0.82, AVE = 0.67)	
Entrepreneurial Experience (EEXP)	0.78
Industry Experience (IEXP)	0.90

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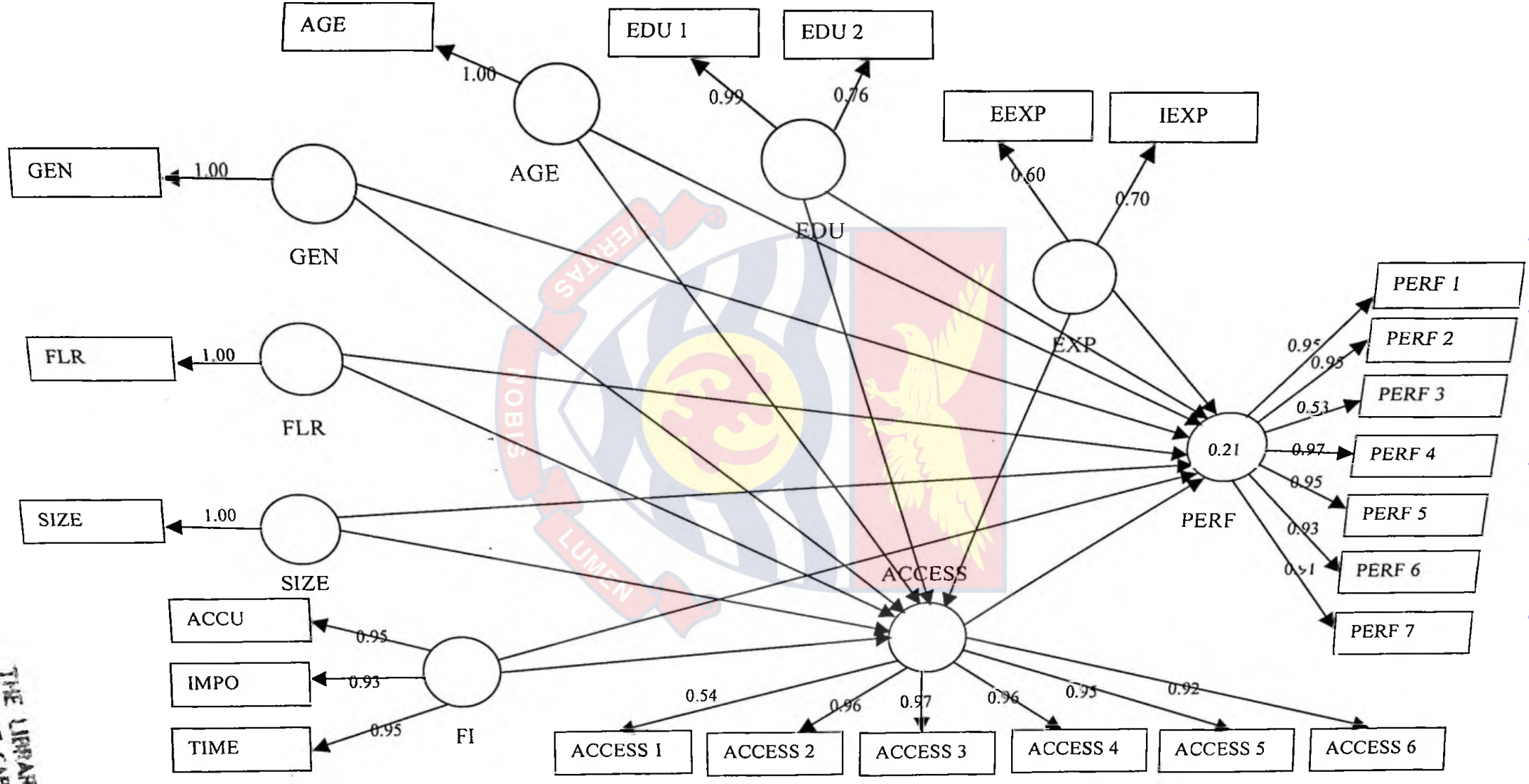
Appendix J: PLS graph of the structural model



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