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DETERMINANTS OF CAPITAL STRUCTURE OF MICRO, SMALL AND MEDIUM SCALE ENTREPRISES IN THE ADENTAN MUNICIPALITY, ACCRA, GHANA

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DECLARATION

I hereby declare that this work is the result of my own research and has not been presented by anyone for any academic award in this or any other university. All references used in the work have been fully acknowledged.

I am solely responsible for any shortcoming.

..... **……**

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CERTIFICATION

I hereby certify that this thesis was supervised in accordance with procedures laid down by the university.

..... **.....**

DR. AMIN KARIMU **DATE**

(SUPERVISOR)

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DEDICATION

I dedicate this thesis to the Almighty God and to my dear family for their love, care and support throughout my study.

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LIST OF ABBREVIATIONS

GDP - Gross Domestic Product

MSME - Micro Small Medium Enterprises

RGD - Registrar General's Department

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ABSTRACT

One of the most critical impediments MSMEs face is the access to finance. This is largely due to the problem of information asymmetry associated with MSMEs. Financing decision is a vital issue for every small business, as its absence often leads to bankruptcy and failure of the business. Extant literature suggests that business owners often finance their firms with different debt-equity ratios. A practical question could be asked as to what factors influence such financing decisions? This highlights the main objective of the study which was to examine the key determinants of Capital Structure of MSMEs within the Adentan Municipality. In this regard, primary data was collected from 150 entrepreneurs and business owners currently with operations within the Adentan Municipality. Findings of the study revealed that, profitability, interest rate of loan, tenure of loan, size of the firm, asset structure, age of the firm, and the type of product or service offered by the firm were all found to be relevant to their financing decision. Regression analysis was performed and the results revealed that, there is positive and significant relationship between the explanatory variables i.e. profitability, age and size of the firm and sources of finance i.e. retained earnings and debt. The researcher suggested that, entrepreneurs need to plough back to internally generated funds and also endeavor to use debt due to its tax benefits. This would enable the firm grow and increase its value. Also, business owners must endeavor to separate themselves from their business and keep proper records of all their business operations. Such records are very important during the process of accessing debt or external financing. Lastly, the researcher recommended that government should create a business friendly environment that would enable MSMEs thrive.

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CHAPTER ONE

1.0 Introduction

Chapter one is an introductory section of the research. It presents the design of the study which entails the background of research, statement of research problem, research objectives, research questions, implication of the research, and the outline of the research.

1.1 Background of Research

Ghana has seen a significant surge in the number of entrepreneurs over the past 3 decades whom contribute immensely to Ghana's economic prospects as well as that of other emerging and developing economies all over the world. Micro, Small and Medium Enterprises (MSMEs) have since become an issue of great concern to governments, policy makers, academicians. (Abor & Biekpe 2007). The importance of MSMEs to the economic development of countries is gaining a lot of recognition. In developing as well as emerging economies, MSMEs comprise the highest proportion of businesses, and employs the highest proportion of the populace.

According to Millineux (2015), MSMEs are they biggest creators of employment in both developing and developed countries all over the world. They account for about 70% of jobs created in developing countries. Also, MSMEs contribute significantly to the economic growth of the nation through the demand for consumer goods which in turn incite economic transaction for sellers of such goods. Correspondingly, they also inspire demand for their products and services by buyers.

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Berry et al. (2002) noted that demand as seen is imperative to revenue making abilities of MSMEs and also their capacity incite the need for consumer as well as capital goods. The economic, social and developmental role of MSMEs indicate that it is the interest of the everyone for such businesses to succeed (Fisher and Reuber 2000). Nonetheless, financing has been identified as a constant restriction to the growth and survival of small and medium-sized Ghanaian enterprises.

The capital structure of a MSME is central to a core strategy of the business, prospects to succeed, grow and has imperative consequences for firm behavior. Funding opportunities arise when there is a gap in the funding structure between borrowers and lenders of funds. Businesses that are normally not able to take advantage of these opportunities are largely MSMEs as they neither have generated any cash flow revenue nor collateralized assets.

A lot of these MSMEs in Ghana are newly formed ventures, usually 1 – 7 years into operations. At the new venture stage, external investors or financiers have little or no historical on the business, which brings about the problem of information asymmetry. MSMEs often have no prior history and repute, are faced with the risk of failure, and have very strenuous proprietorship. (Huyghebaert and Van de Gucht, 2004). Such unique features often impacts the cost and accessibility to credit to firm, and also the capital preferences of the entrepreneur.

Small ventures' problems linked with raising funds are an outcome of their lack of access to the financial markets and failure to attract external investors (Holmes & Kent, 1991). Entrepreneurs who fail to raise suitable volumes of funding from conventional sources of funds may try to secure funding from alternative sources.

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Frequently referred to as bootstrap financing, these alternate sources of financing are often important to the launch of the new venture and to augment growth strategies (Neeley & Van Auken, 1995). From the perspective of the policymaker, inability to access funding deters individuals from starting MSMEs (Bank of England, 2004). Empirical evidence suggests that, start-up entrepreneurs face difficulty in securing funding which restricts their prospects to grow and expand their firms. (Lopez-Gracia and Aybar-Arias, 2000).

1.2 Statement of Problem

Financing decision is an vital issue for every small business, as money is often regarded as the life-blood of every firm. In its absence, a business would not be able to continue to operate or grow eventually. It is therefore crucial for business to make the appropriate financing decision that is key to the firm's sustainability and increasing the wealth of the entrepreneur.

Extant literature suggests that business owners often finance their firms with different ratios of debt-equity. A practical question could be asked as to what factors influence such financing decisions? The argument as to if companies target a particular capital structure (Rajan and Zingales, 1995) or pursue a pecking order (Myers, 1984) while accessing financing, seems to be centered around reputable listed companies. Larger well-known organizations, that have a wide range of financing options like stock equity, or commercial paper, have been the focus of many theoretical and empirical research.

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Extant literature has quite a number of notable research papers on the Capital Structure of listed firms in Ghana. (Abor & Biekpe 2005; Kyereboah-Coleman, 2007; Abor 2008; Awunyo-Vitor & Badu, 2012; Antwi Mills, & Zhao 2012; Onaolapo, Kajola, & Nwidobie 2015). However, none of these studies focused on the factors influencing the financial decisions of MSMEs in Ghana. There is little knowledge about the determinants financial structure of MSMEs in Ghana. This creates a problem, because financial structure is a vital component of the strategy every small firm that significantly influences the behavior of the business. It is therefore in line with the gap identified in existing research that the researcher seeks to assess the determinant of capital structure decisions in MSMEs, and also identify the most prevalent source of financing amongst MSMEs in Ghana.

1.3 Research Objectives

The main objective of the research is to examine and identify the key determinants of capital structure in Ghanaian MSMEs.

Specifically, this research intends to;

- To ascertain the key determinants of capital structure of MSMEs in Ghana
- To identify the most prevalent source of financing in MSMEs in Ghana

1.4 Research Questions

This study seeks to answer questions below:

- What are the determinants of capital structure of MSMEs in Ghana?
- What is the most prevalent source of financing amongst MSMEs in Ghana?

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1.5 Significance of Research

A lot of countries over the past decade have altered their economic development tactics from the public sector to the private sector and have on a course to make use of structured financial markets in financing businesses in the sector. This emphasizes the need to extensively research factors influencing the financing decisions of private companies in private companies. (Green, Murinde and Suppakitjarak, 2002).

This study aims to examine, ascertain and substantiate the key determinants that influence entrepreneurs in new venture financing choices. A research with respect to the financing choices of Ghanaian MSMEs is one that's imperative in the Ghanaian context given their major contribution to our economic prospects as a nation.

Ghana has formulated a 10-year Development Plan, and underlying this policy is a boost for effective and efficient MSMEs sector. The findings of the study bear policy implications, for financiers, policy makers, and entrepreneurs. Furthermore, this information will add to the existing literature regarding capital structure of MSMEs in Ghana.

1.6 Chapter Outline

Chapter 1 is an introductory section of the research. It presents the design of the research which entails the background of the research, statement of research problem, research objectives, research questions, significance of the research, and the outline of the research. Chapter 2 discusses and reviews the theories on Capital Structure, as well as the empirical literature related to Capital Structure.

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In Chapter 3, the researcher provides an Overview of MSMEs in Ghana and discusses the trends associated with MSMEs. Chapter 4 presents the methodology used in achieving the research objectives stated in the introductory chapter. Chapter 5 presents findings of the analyzed field data and, and lastly Chapter 6 presents a synopsis of research findings, draws conclusion and offers recommendations.

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CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Chapter two critically assesses existing literature related to Capital Structure from several sources which includes publications, journals, and reports with relevant information. This chapter reviews the theories on Capital Structure. Also, the determinants of Capital Structure and the empirical literature linked to the determinants are reviewed.

2.1 Theoretical Literature Review - Theories on capital structure

In recent years, the term 'Capital Structure' in finance has been a broadly debated subject by most researchers. Capital Structure is often defined as the proportion of debt and equity that is used in financing the daily operations of a firm. (Glen, 2004). One of the earliest significant sources that argue the relevance of capital structure is Modigliani and Miller (1958), who analysed the capital structure of a firm and its value. Modigliani and Miller (1958) concluded that, capital structure had no effect on the value of a firm. The study was however based on certain assumptions that were later described as "restrictive and unrealistic". They included the non-existence of tax and free world with impeccable financial market.

Adjusting these underlying assumption in their subsequent study, capital structure of a firm did have an influence on its value. In view of this, they amended their initial argument in 1963 and thereafter, a number of researches carried out on capital structure and firm value found a significant

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and positive relationship. (Jensen and Meckling, 1976; Myers, 1984; Abor, 2005, Chadha & Sharma, 2015, Muritala, 2018). The research by Modigliani and Miller (1958) on Capital Structure formed the basis of three other theories that came after namely, Static Trade-Off Theory, Pecking Order Theory and Theory of Agency Cost.

2.1.1 Theory of Static Trade-Off

Jensen and Meckling (1976) postulated the theory of Static Trade-Off. The theory states, that "an optimal capital structure is obtained whereby the net tax advantage of debt financing balances leverage related costs, such as financial distress and bankruptcy, holding firm's assets and investment decisions constant". This implies, the use of equity by a firm implies digressing from the optimal capital structure as such should be seen as a bad decision for the firm.

2.1.2 Theory of Pecking Order

The Pecking Order theory was postulated by Myers (1984). The theory states that, "firms prefer to finance new investment, internally with retained earnings, with debt, and later with an issue of new equity". Myers contended that, it was often challenging to derive an optimal Capital Structure as equity is seen to be the both ends of the pecking order. Financing an investment opportunity with internally retained earnings comes at little or no additional cost and does not oblige the firm to disclose any proprietary information. Thus, the firm is more likely to realize higher gains on such investments. Hogan & Hutson (2005) noted that, this is cost effective approach for MSMEs since in comparison with larger firms, it costs more for such firms to access external finance.

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2.1.3 Theory of Agency Cost

Agency Cost theory was postulated by Jensen and Meckling (1976). They contend that, agency cost plays a substantial part in the Capital Structure of firms due to disagreements that are likely to exist between debt-holders and stockholder. The theory suggests that, the optimal Capital Structure can be derived by decreasing the costs that arise from disagreements between such parties. This is to say that, in times of financial problems, the stockholders of the firm may urge the managers of the firm to make certain decisions that will in turn, appropriate funds from debtholders to stockholders. As a result, some of these debt holders may demand a higher rate of return to compensate them for the risk. This is because debtholders possess the legal right to demand interest payment even in the event of management failure. Hence, managers who fear losing their jobs are more likely run the company judiciously to be able to service interest payments when due, thus allying their actions towards maximization of shareholder's wealth.

2.2 Capital Structure

Extant literature has propounded several factors to be significant in influencing the capital structure of firms. These includes quantitative factors e.g. age, size, risk, tax, profitability, asset structure as well as qualitative factors e.g. industry, social norm, business location, entrepreneur's education and experience, and type of company.

Capital structure is attributed with the precise proportion of debt and equity financing sources which a firm uses to fund its activities. More so, several theories within literature have also been used in an attempt to rationalize the Capital Structure of firms. They include pecking order theory, tax deductibility of debt financing (static trade-off), and agency cost. The concept of an optimal

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capital structure was first stated by Myers (1984). This was founded on the idea of information asymmetry. The prevalence of information asymmetry between new ventures and prospective financiers, ultimately results in the relative cost of financing. For a new venture, issues of shares to new equity holders or funds from new debt-holders will cost the firm more than sourcing financing from internal funds or a fund provider who is already a part of the firm due to the issue of information asymmetry.

The pecking order theory proposes that; a pecking order is followed when a business makes a financing decision. It further suggests that, entrepreneurs or businesses will first look to internally generated funds, and thereafter consider debt in a case of little or no information asymmetry, and conclusively issue external equity to make up for residual capital needs.

On the basis of tax deductibility linked debt financing, Green et al., (2002) found tax to have imperative influence on the financing choices of businesses. Businesses that use debt financing are permitted to take out interest payment before calculating their taxable profit. This surges the firm's value and creates an incentive for the use of debt to finance its activities. In spite tax advantage associated with debt, it however exposes the business to a bigger probability of bankruptcy. An ideal financial structure is characterized by a level of debt which finds a balance between the likely cost of bankruptcy and profits derived from the use of debt.

According to Pettit and Singer (1985), if company is faced with a high the risk of bankruptcy due to the use of debt, that company will be less motivated to issue debt when raising new capital. With reference to this analogy, the agency cost is what develops as of using debt as to finance the

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activities of the firm. These costs occur due to the link between owners and management, as well as that amid debtholders and owners of the business. The relations are usually considered as a principal-agent relationship while the managers of the business are referred to as an agent, both the shareholders and debtholders are considered principals. The agency problem arises out of managers not prioritizing the task to maximize owner's wealth. The separation of proprietorship and management may result in the manager putting in less effort than desired, and they might prioritize their intention before that of the shareholders. Managers may advance projects that do not positively impact the value of the firm, but rather increase their control over the business's assets. Harris and Raviv (1990) corroborates the fact that, managers are motivated to continue the operations of the business even if shareholder desire cashing out.

Alternatively, the disagreement between shareholders and debtholders if often as a result of moral hazard. Also, such disagreements may occur as a result of opposing claim by each party on the firm. Ordinary shareholders do not demand fixed payments on their investments and often hold residual claim over the firm's assets. Debtholders however, demand fixed periodic payments on their capital provided. The rate of return demanded by debtholders often is commensurate to the risk linked with the invesment. Due to the nature of debt agreements, shareholders often invest below desired level and this gives rise to conflicts. (Jensen and Meckling, 1976). If the project yields very high returns, shareholders share in the greater portion of the spoils. However, in the event of failure, due to the limited liability nature of shareholder agreements, debtholders bear a greater share of the consequences.

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2.3 Determinants of Capital Structure

Based on the theoretic viewpoints reviewed earlier, the researcher highlights a several firm level characteristic within extant literature that impact the capital structure of MSMEs. They comprise the age of a business, size of a business, risk associated with the business, profitability, ownership structure, industry, business location, entrepreneur's education & experience, and type of company, which accounts for a company's capital structure.

2.3.1 Age of the firm

Age of the firm is considered an essential determinant of capital structure. Longer years in operations for a business fosters in its position and reputation as well as its prospects to take on debt, thus a positive relationship between the use of debt and age of a firm.

2.3.2 Firm size

Size of a business has also been noted as a factor that influences capital structure of small firms. For MSMEs, it is more expensive to resolve problems of information asymmetry with financiers, thus, leading to lower levels of debt. (Castanias, 1983). The likelihood of smaller firms repaying funds secured from financiers is less, thus increasing the agency costs linked with the use of debt for such firms.

2.3.3 Asset structure

The asset structure of a firm plays a substantial part in influencing its capital structure. The extent to which a business' assets are real translates into greater liquidation value for the business (Boateng, 2004). Literature suggests that, debt may have to be used more if sustainable and real assets to be used as collateral for loans. (Wedig et al., 1988).

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2.3.4 Profitability

The correlation amid the profitability of a business and its capital structure can be rationalized by the theory of pecking order. The theory postulates that businesses would prefer to finance new investment opportunities with internal equity before looking to debt and then outside equity. Thus, lucrative businesses which have retained earnings, could rely on such funds in contrast to being contingent on external sources such as debt.

2.3.5 Firm growth

Growth within MSMEs is a phenomenon that is likely to cause an overrun of the businesses' internal sources of financing, thus pushing the firm to take on debt (Heshmati, 2001). With the supplementary concentration of proprietorship, it is projected that high growth businesses will necessitate more outside funding and ought to show high levels of debt. (Hall et al., 2004).

2.3.6 Other factors

Other heterodox factors are qualitative factors that influence the financing decision. They include ownership structure, industry, business location, entrepreneur's education & experience, and type of company.

2.4 Empirical Literature Review

2.4.1 Using Internal Equity (Retained Earnings)

The Pecking Order theory proposes that, most companies tend to make use of financing sources that are least vulnerable to underestimation due to problems of information asymmetry when financing new investment opportunities. Similarly, the theory also suggests that, most of the firms prefer to finance new investment opportunities or projects with internal equity. After exhausting the internal funds, the firm engages in debt as a source of financing before utilizing external equity.

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The supply of finances then depends on several factors some of which include the developing stage and size of the firm which are intricately connected. (Dhawan, 2001)

Generally, most start-ups and early-stage businesses often rely on the personal funds. This is to say that, if the firm is successful in its growth, its retained earnings are ploughed back into current or new projects thereby facilitating the use of internally generated funds as a financing source. This continuous inclination for using internal funds is progressively dependent on retained earnings as the firm grows and expands its operations. This translates into the fact that, the use of retained earnings by firms is positively related to profits, age and size of the firm hence; the more profitable a firm is, the higher their reliance on internal equity. (Hall et al., 2004)

2.4.2 Using External Equity

Most start-ups and young firms in particular find it difficult to access finance for investment for several reasons. (Abor, 2004) Internal equity of these start-up firms is usually limited because such businesses are unable to generate sufficient revenues impeding the personal funds of the entrepreneur. For these reasons, most of the start-up business may have to look to external equity mainly from business angels or alternatively access financing from venture capitals firms. (Boateng, 2004) To support the firms desire to grow profitably, the tax incentives and grant schemes by the government are also considered essential sources of financing source to fledge businesses. However, as the business expands, it is likely to be record more profits, implying that a negative relationship exists between age of the firm and the use of external equity. This is because, the firm will finance existing as well as new projects with profits accrued. (Hall et al., 2004)

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The size of the firm and the utilization of external equity as a source of financing are generally positively linked. Most venture capital firms usually provide financing for early stage business with high growth potential. (Delcoure, 2007). The theory of pecking order suggests that, large corporations have less issues of information asymmetry and are often able to issue additional shares in comparison to smaller firms, and thus are more likely to access such sources of financing. This implies that, a positive correlation exists between size of the firm and the use of external equity.

More so, the level of profits in a firm can also influence the choice of a firm to use external equity in the sense that, a firm that is profitable will have at its disposal more internal funds. With access to such funds, a firm would be less likely to make use of external equity as a source of financing. This then implies that, profitability of a firm has a negative relationship with the use of external equity, since a highly profitable firm more likely to be dependent on its own internally generated funds. (Hutchinson, 2004)

2.4.3 Using Debt

The size of a firm is also considered a key determinant of the use of debt by a firm. Its somewhat more expensive for small firms to resolve problems of information asymmetry with financiers. Small firms get access to finance at higher costs as compared to some of the large firms. (Cassar and Holmes, 2003). Additionally, Cosh and Hughes (1999) also opine that, small businesses are compelled to use less levels of debt than large companies. In view of this, Hutchinson (2004) also found a positive relationship between the size of the firm and the use of debt.

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Large companies are often more diversified and hardly fail, implying that small enterprises rather have a higher bankruptcy as compared to the large firms. Hence, under these assertions, a Trade–Off Theory can be applied with the hypothesis that firm's size is positively linked to its level of debt. In the case of the age or maturity of the firm and its relation to debt level, most small enterprises are faced with high levels of information asymmetry and consequently less likely to access debt financing. Meanwhile, when a firm a grows, it has good financial track record, and this lessens the issue of information asymmetry thereby expediting their capacity to borrow.

Furthermore, as the small business grows, it is more likely to accumulate assets such account receivables, inventory and equipment which could be used as guarantees when accessing debt financing. (Berger and Udell, 1998). For instance, small business may acquire fixed assets for which the firm may have access to mortgage finance. Hence, mature firms tend to exhibit higher levels of debt as compared to the newer companies implying that the age of the firm is positively correlated with the use of debt.

All things being equal, a profitable firm will retain fairly lower levels of debt due to the availability of internally retained earnings. Hall et al., (2004) propounded a negative relationship between the level of profits in a firm and its use of debt. So the more profitable firms are, the less likely they are to rely on debt financing. Implying a negative relationship exists between a firm's level of profits and its use of debt.

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2.5 Hypothesis

H_0: The profitability, size and age of a MSME is negatively related to its use of retained earnings.

H_1: The profitability, size and age of a MSME is positively related to its use of retained earnings

H_0: The profitability, size and age of a MSME is negatively related to its use of debt.

H_2: The profitability, size and age of a MSME is positively related to its use of debt

H_0: The profitability, size and age of a MSME is negatively related to its use of external equity.

H_3: The profitability, size and age of an MSME is positively related to its use of external equity.

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CHAPTER THREE

OVERVIEW OF ENTREPRENEURSHIP IN GHANA

3.0 Introduction

Chapter three examines the current state of entrepreneurship, characteristics of MSMEs, and the role of MSMEs in economic development of Ghana.

3.1 Entrepreneurship in Ghana

The 1980s saw the beginning of neo-liberalism and globalization, as well as the introduction of liberalization and free trade policies which have resulted in private sector expansion in many third world countries, with Ghana as no exception. An increased awareness of inequalities and poverty globally in comparison with successful initiatives by microfinance institutions has attracted attention worldwide and promotes global entrepreneurship focused initiatives to establish MSMEs across both informal and formal sectors. A free market system, capitalism and business innovation increase competition, efficient output and profit maximization enabled entrepreneurial activities on small, medium and large scale to increase substantially. Opportunity-oriented entrepreneurial direction commits an entrepreneur to act on potential opportunities and prospective new business opportunity. The governments of many countries have been motivated by these trends in entrepreneurship to help founders who take the required risk to set up MSMEs to make contributions towards the development of the economy and make profit.

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An entrepreneur is defined as someone who identifies an opportunity, potential risk and growth quandary but is willing to establish a new business by putting together required the resources necessary to capitalize on them. (Zimmerer et al., 2008). Suleiman (2006) also defines entrepreneurship to be an individual's ability and willingness to create and run a business successfully by seeking opportunities for investment. More so, other orientations of entrepreneurship pivot on production factors such as start-ups and risk-taking to efficiently operate a business, seek investment and market opportunities to be profitable. The concept of entrepreneurship thus involves organization of social and economic mechanisms to be profitable, dynamic and capacity building. Additionally, an entrepreneur's probability of risk taking decisions is characterized by their social and economic decisions. Most entrepreneurs innovatively take advantage of changes in the world to put their resourcefulness and skills to use for benefit of economic returns in the current global economic system.

Entrepreneurship demands good management skills which draw a comparison between management and entrepreneurship because whereas entrepreneurs take risks and have their specialty lying in the field of start-up businesses, managers administer businesses to ensure their growth. In spite of the many business start–up risks, various reasons compel people to be entrepreneurs whom focus on taking advantage of prospective opportunities by promptly mobilizing resources to and take initiative even under uncertain conditions. Attributes of entrepreneurship that motivate people to be self-employed include profit orientation, financial independence, freedom of owning a business, self-esteem fulfillment, improve livelihood and lifestyle and control over working conditions.

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3.2 Definition, Characteristics and Trends of MSMEs in Ghana

The classification of the various types of businesses in a country is dependent on the inclusion or exclusion of the informal sector as well as how they are defined. The Ghana Statistical Service groups businesses into 4 categories and they are- large-sized businesses, which engage more than 100 persons; medium sized businesses, from 31 to 100 persons; small-sized businesses, engaging from 6 up to 30 persons, and micro-sized businesses, which engage no more than 5 persons. The categorization as formal or informal rests on the establishment's registration status with the Registrar General's Department (RGD) and whether or not there are professionals managing the accounting records. A combination of these two factors that is registration under the RGD and professional account record management earns the categorization as formal. According to the RGD (2016), 90.5% of Ghana's enterprises are however considered informal thus giving rise to an industry characterized by more micro businesses than medium and large.

Most entrepreneurs in Ghana set up MSMEs because they are endowed with a sense of pragmatic optimism and led by the belief that getting into business is an efficacious way of getting rid of impoverishment and attaining self-sufficiency. Taking entrepreneurial action is a risk-taking venture that necessitates entry into new markets as well as the innovation of new products and services. This is to say that the cognitive adaptability of an entrepreneur explains the extent to which they are flexible, dynamic, independent, focus on processing and detecting changes in their surroundings and generate multiple decision frameworks (Hisrich, Peters & Shepherd, 2013).

The areas with more specialized and literate human resource, in most developed countries, is a vital local element for entrepreneurship whereas in developing countries like Ghana, businesses can be based on the population distribution and settlement structures because of the relative

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accessibility of market opportunities and sources of funding they will attract. For instance, urban areas are more likely to attract more business-start-ups in compared to the communities in rural areas.

A lot of entrepreneurs manage their own companies which are either structured or unstructured. The structured ones operate from registered premises with paid employees and the unstructured ones are not registered, do not hire skilled labor and operate from home or open space. The unstructured MSMEs often make use of family members as cheap labor in its bid to meet the human resource needs of the enterprise.

In Ghana, MSMEs are focused on certain business activities some of which includes trading (wholesale and retail), services, construction, and manufacturing. However, they are mainly focused in the services and retail sectors. Some operate from urban while the others do so from rural areas. According to Abor (2016), most entrepreneurs are predominantly female.

3.3 Contribution of MSMEs to Economic Development

Ghana's domestic economy in the last 30 years has evolved from an agriculture based economy to a service-based economy which has led to the country being classified as a middle income country by the World Bank.

The process of development yielded many positive outcomes, one of which was the emergence of new sectors, catalyzed by the diversification of the economy that resulted from the decentering of raw material mining and agriculture. Although very few of them subsist, small commercial companies have become indispensable to this developmental process. The importance however, of MSMEs growth to achieve a stable place among high income countries and upper middle-income is undeniable.

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According to Millineux (2015), MSMEs are they biggest creators of employment all over the world. They account for 70% of jobs created in developing countries. MSME's labor needs are often intensive, however, they lack skilled labor, managerial skills and technology necessary to operate at very efficient levels.

Furthermore, MSMEs contribute significant to economic growth of the nation through the demand for consumer goods and services which in turn incite economic transaction for sellers of such goods and services. Correspondingly, they also inspire demand for their products and services by buyers. Berry et al. (2002) noted that demand as seen, is imperative to the revenue making abilities of MSMEs and also their capacity incite the need for consumer as well as capital goods.

In Ghana, MSMEs add to Gross Domestic product (GDP) of by producing goods and services which is patronized by end users or other businesses within the local economy. They also contribute by adding to our export revenue and create foreign exchange by exporting the goods produced to other countries. According to the Abor (2016), MSMEs account for more than 70% of Ghana's GDP. In spite of their tremendous contributing to the economic prospect of Ghana, a lot of new ventures often fail during their early in our part of the world due to a number of factors. One of the most critical impediments MSMEs face is the issue of not understanding matters related to finance and their ability to access it. Funding and finances are basic features for the survival of any business venture, and a decent comprehension of money related issues standing up to MSMEs will expand the odds of the business visionary enduring.

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CHAPTER FOUR

METHODOLOGY

4.0 Introduction

Chapter 4 discusses the research approach used during the study, and explains how the research was carried out so as to accomplish the aims stated in the introductory chapter. This chapter begins by discussing the research design, sampling, data collection instruments, method of analysis, model specification and the econometric techniques used to analyze the data for research and lastly, the ethical considerations taken it account during the study.

4.1 Research Design

Singh (2006) described the design of a research as the skeleton to the entire study. He viewed it as strategy for mapping out the research mapping strategy that is grounded on the technique used for sampling. Malhotra and Birks (2004) also defined a research design as the occurrence of an event or the degree to which two variables differ. The researcher intended to assess the determinants of the capital structure of MSME within the Adentan Municipality. This was achieved by adopting a descriptive research design, which explains a phenomenon void of any influence, to investigate the factors influencing the capital structure decisions of entrepreneurs within the Adentan Municipality. This research strategy was considered appropriate because it explains what is currently happening, and its intended to report pertaining to the capital structure of MSME within Adentan Municipality. Quantitative and qualitative research approach was employed to respectively quantify and qualify gathered views from respondents.

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4.2 Population

According to Saunders et al., (2009), a population denotes the aggregate group from which a certain inference be made. The total population considered under this research is the Micro, Small, and Medium Scale Enterprises currently operating under Adentan Municipality. This number according to the Adentan Municipal Assembly, (2018) is estimated to be about 235.

4.2.1 Sample

A sampling frame refers to the absolute list upon which all modules of the research are itemized once. (Welman & Kruger 2000) The sample frame for this study comprises founders, directors and mangers of MSMEs which are considered most pertinent to the study. So as to derive a more profound perspective to the research, deliberate and purposive sampling techniques was used during the study. The sampling approach is to targets the exact group of respondents relevant to the study. This method of sampling is often used in generate a management sample comprising the owners, and managers. To evidently represent the sample size, respondents were questioned and interviewed from 150 out of the 235 MSMEs with operations in the Municipality.

4.3 Data Collection

4.3.1 Data Sources

Saunders et al. (2009) noted two important data sources, which are namely, primary and secondary data sources, to gather firsthand information and already available and published data used as a source of information respectively. Both data sources was used in the study. Primary data sourced through questionnaires and the secondary source entails material that was obtained from journals, financial statements and other relevant information.

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4.3.2 Research Instrument

Instruments are apparatuses used for collecting data during a research. These instruments include closed and open-ended questionnaires, observations, structured interviews, focus group discussions, etc. In spite of the ability of researchers to be able to use any of these instruments, some of the instruments are more appropriate for precise research strategies. (Easterby-Smith et al 2012). Questionnaires were administered to the entrepreneurs. These questionnaires were designed to close ended questions in line with the two aims of the research. The instrument i.e. questionnaire is selected based on its flexibility in the process of collecting data as its able to produce information that is easy to code for the purposes of analysis an interpretation. Closed-ended questions will be used for the study to ease respondent's responses and also help save time. However, the likely challenges for using this kind of data collection approach that, the data collected might include invalid and zero responses. And also, there is a chance some respondent might lose the questionnaires. Furthermore, the confidentiality of the data collection will be stated as the header section of the questionnaires circulated stating "The responses provided are meant for academic purposes on and will only be used in that regard". Data was collected from respondents who volunteered willingly to participate so as to ensure compliance and reliability of data collected and inputted. In total 150 questionnaires was distributed out.

4.4 Validity and Reliability

Initial reliability which can be explained as the degree to which a phenomenon is consistent and can be depended on, as well as the validity test, is relevant to this study to examine the credibility of the data acquired from the survey. Cronbach's alpha test was carried out to ascertain the reliability of the data gathered from the survey. For the purposes of this study, criteria of alpha of

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0.7 and above was considered acceptable. The alpha value obtained served as the basis to judging the reliability of acquired data.

4.5 Method of Analysis

A robust empirical estimation technique was used to analyze how the independent variables (Age, Size, Profitability and the control variables) interact to influence Capital Structure decisions of MSMEs. In particular, a cross-sectional data regression technique was used in this context. The field data was coded and tabulated for analysis. The researcher carried out empirical tests on the existence of heteroskedasticity and multicollinearity in the model used for the study. To be able to analyze and interpret the data acquired from the field survey, the Stata statistical tool was used. The rationale for selecting this software is due its ease of use. It is considered one of the most reliable quantitative analytical software. Descriptive statistics was used to present data on the demographics of the respondents as well as performed to ascertain the means and standard deviation of the concepts examined, which assisted in drawing inferences from the sample data for the entire population. The means scores of items were used to understand the extent that these constructs influence capital structure decisions. In addition, regression analysis was performed to explore the factors influencing the Capital Structure decision of entrepreneurs.

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4.6 Model Specification

This section of the study looks at the model specification to help in realizing the objectives of the research. Specifically, the study is motivated by two research objectives;

- What are the determinants of capital structure of MSMEs in Ghana?
- What is the most prevalent source of financing amongst MSMEs in Ghana?

To accomplish these two research objectives, we made use of a robust empirical estimation technique to examine how the independent variables (age, size and profitability and the control variables) interact to influence the sources of finance for the firm. Based on existing literature, several determinants of capital structure have been propounded. These includes quantitative determinant (age, size, risk, tax, profitability, volatility of earnings) as well as qualitative determinants (industry, social norm, business location, entrepreneur's education & experience, and type of company). The study employed 3 key quantitative determinants i.e. profitability, age and size of business because, they were the focus of a number of existing empirical studies within literature (Boateng, 2004; Abor, 2004; Awunyo-Vitor & Badu, 2012; Antwi Mills, & Zhao 2012). This allowed for easy to comparison of the researchers results with such research papers when checking for consistency. Furthermore, the numerical nature of the data allowed simpler analysis of the data when testing for significance and also comparing mean and standard deviation values. The study, therefore, adopted a framework put forward by Abor (2004) with some slight modifications. Under this study, Profitability, Age and Size of the firm were expressed as a function of Source of Finance for the firm.

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4.6.1 Regression Model

$Y = f(Age, Size, Profitability,)$

Where Y denotes the source of finance.

The multiple regression model is stated below;

$$Y = \beta_0 + \beta_1 Age + \beta_2 Profitability + \beta_3 Size + \varepsilon$$

From the equation, Y represents Source of Finance for the firm. Age denotes the number of years the business has been operational. Profitability represent how profitable the venture is. Size denotes the number of personnel the business currently employees. β_0 denotes the intercept, $\beta_1, \beta_2, \beta_3,$ are the estimated parameters, ε is the error term which consists of all other determinants or factors that are likely to impact the dependent variables besides the key independent variable considered in the study, but not explicitly presented in the model.

4.7 Ethical Consideration

A lot of means was employed to guarantee the research satisfies the required ethical standards. Express consent was sought from the entrepreneurs and managers considered under this study. Participants were not coerced or asked to partake, unless it was of their own free will. The researcher exercised a considerable amount of objectivity and circumspection throughout the research period.

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CHAPTER FIVE

FINDINGS & ANALYSIS

5.0 Introduction

Chapter 5 presents the findings and its analysis on the Determinants of Capital Structure in MSMEs within the Adentan Municipality. This chapter seeks to analyze the perceptions of the entrepreneurs and business owners concerning factors influencing their financing decisions. The data was gathered mainly through the distribution of questionnaires and the output of the analyzed data is presented below.

5.1 Demographic Data

A demographics of the respondents based on their gender, position, level of education, type of business, age of the firm and size of the firm is presented below.

5.1.1 Respondent's Age

Table 1: Age distribution of respondents

Age	Frequency	Percentage (%)
18-30	48	32
31- 43	66	44
44 – 54	21	14
55 and above	15	10
Total	150	100

Source; Field Data, 2019

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The total number respondents from which usable data was collated summed up to 150. The majority of which were between the ages 31 and 43, representing 44% of the number of respondents considered under the sample. The next majority of respondents representing 32% were between the ages 18 and 30. Only 14% of the respondents were between the ages 44 and 54 and lastly, respondents who were above age 55 represented just 10% of the total respondents.

5.1.2 Respondent's Gender

As part of the research, data was collected from the small business owners and entrepreneurs within the Adentan Municipality who were both male and female. The female respondents made up utmost proportion in comparison with the male respondents considered under the study.

Table 2: Gender of respondents

Gender	Frequency	Percentage (%)
Female	81	54
Male	68	46
Total	150	100

Source; Field data, 2019

Table 2 indicates that, the sample considered under the study consisted of both men and women, with women having the highest representation of 54% as compared to the men being 46% of the total respondents. This therefore goes to support the school of thought that small business owners in Ghana are predominantly female.

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5.1.3 Level of Education

During this research, the educational background of respondents was analyzed. Out of the total respondents, it was apprehended that majority of the small business owners had the Diploma as utmost educational qualification whereas the minority of the respondents had the Postgraduate education as their utmost educational qualification.

Table 3: Level of Education

Level of Education	Frequency	Percentage%
Diploma	72	48
Higher National Diploma	36	24
Undergraduate Degree	36	24
Master's Degree	6	4
Total	150	100

Source; Field data 2019

Table 3 show that, respondents with a Diploma were the highest representation of 48% followed by respondents with a Higher National Diploma, representing 24%. The respondents with Undergraduate Degree as their highest form of education also represented 24%, and those who have had up to a Postgraduate degree were the least, representing 4% of the total respondents.

5.1.4 Type of Business

The researcher intended to ascertain the various sectors and nature of businesses which the respondents managed. The table below explains the output of the data collated and analyzed

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Table 4: Type of Business

Types of Business	Frequency	Percentage%
Trading	93	62
Service	45	30
Manufacturing	4	2.67
Construction	3	2
Agriculture	5	3.33
Total	150	100

Source; Field data, 2019

Table 4 indicates the type of business operated by the business owners and entrepreneurs considered within the sample and evidently, 62% constituting the majority of the businesses are into general trading, about 30% of the businesses provided a range of services as their main line of business. Furthermore, about 2.67%, 2% and 3.33% of the businesses were into the manufacturing, construction and agriculture sectors respectively.

5.1.5 Years of Operations

The researcher intended to ascertain the various ages of the businesses which the respondents managed. The table below explains the output of the data collated and analyzed. From Table 5, it indicates the type of business operated by the business owners and entrepreneurs considered within the sample and evidently, about 37.33% of the business have been in operation for between 0 to 3 years, about 46.67% constituting the majority of the businesses have been in operation for between 4 to 7 years. Also, about 12.67% of the business have been in operation for between 8 to 11 years and about 3.33% of the total respondents, being the least, have been operating for over 11 years.

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Table 5: Years of Operation

Years of Operation	Frequency	Percentage%
0-3	56	37.33
4-7	70	46.67
8-11	19	12.67
More than 11 Years	5	3.33
Total	150	100

Source; Field data, 2019

5.1.6 Number of Employees

There was a need to ascertain the size of the businesses which the respondents managed. A proxy for which number of employees is used. The table below explains the output of the data collated and analyzed.

Table 6: Number of Employees

Number of Employees	Frequency	Percentage %
1 – 4	54	32
5- 15	87	44
16 – 45	9	16
46 and above	0	0
Total	150	100

Source; Field Data, 2019

The majority of businesses considered under the study have been between five and fifteen employees and this represents 44% of the total respondents considered under the sample. 32% of the business had between one and four employees and 16% of the business constituting the minority of business considered under the study had between sixteen and fourteen.

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5.2 Source of Finance

The entrepreneurs were asked as to which of the key sources of finances they utilized at the start of their business and after the first year of operations i.e. retained earnings, internal equity (personal funds, or finance from family and friends), debt financing, and external equity. The tables below presents the output of the data analyzed.

Table 7a: Sources of Finance (Pre Start-up Phase)

Variable	Description	Frequency
BFF	Use of personal funds, informal funds and finance from friends & family (Bootstrapping)	139
Debt	Use of loans, trade credits, overdraft, factoring, hire purchase, leasing, or long term debts	31
EEQ	Use of external equity from business angels, venture capital or grants from government.	2

Source; Field Data, 2019

Table 7b: Sources of Finance (Post Start-up Phase)

Variable	Description	Frequency
RE	Use of retained earnings	133
BFF	Use of personal funds, informal funds and finance from friends & family (Bootstrapping)	126
Debt	Use of loans, trade credits, overdraft, factoring, hire purchase, leasing, or long term debts	92
EEQ	Use of external equity from business angels, venture capital or grants from government.	25

Source; Field Data, 2019

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Binary coding was uses for this segment. Each source of finance coded 1 if used by the firm and 0 if it's not used by the firm. The data in table 7a shows that, Bootstrapping was pre-dominantly the source of finance used at the start of the businesses considered under the study. At the post startup phase (table 7b), retained earnings was the most preferred source of financing by majority of the respondent. This is closely followed by internal equity, and afterwards debt financing. External equity was the least used financing source by the respondents considered under the study.

5.3 Correlation Mix

A correlation matrix was used for this study to illustrate the association between the key variables considered under the study. The results are presented below.

Table 8: Correlation Matrix

Variables	RE	Debt	EEQ	Profitability	Age	Size
RE	1					
Debt	0.007	1				
EEQ	0.000	0.000	1			
Profitability	0.973	0.711	-0.034	1		
Age of Firm	0.885	0.762	0.534	0.983	1	
Size of Firm	0.869	0.666	0.732	0.728	0.000	1

Source; Field Data, 2019

It is evident in the results illustrated in the correlation matrix above that, a positive link exists between debt and the independent variables represented by size, age and the profitability of the firm. Regarding all the coefficients are above 0 and very close to the value 1, this indicates approximately perfect correlation between all the variables.

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In the same way, retained earnings has a positive relationship with the independent variables considered thus, profitability, size and age representing a positive link between these variables since all the coefficients are above 0 and very close to 1.

The scores of the correlation matrix further indicates that a positive relationship exists between size and age of the firm and external equity. However, in the case of profitability and external equity, a negative relationship exists. Notably, several other studies share results that are similar to that of this study showing a positive correlation between profitability, size and age of the firm and debt. (Abor, 2004; Hovakimian and Tehranian, 2004).

5.4 Mean Scores and Standard Deviation

Based on likely factors that influence financing decision presented to the respondents which they were asked rate the factors based on how relevant the factors were to their financing decision. A summary of the standard deviation as well as the mean scores is presented below. The factors included Profitability of the firm, Tenure of Loan, Asset Structure, Size of the firm, Interest rate of loan, Age of the firm, and the Type of Product or Service produced by the firm.

Table 9: Mean scores and Standard Deviation

	Mean	SD
Profitability	4.366	2.423
Loan Tenure	3.524	1.931
Size	3.855	1.635
Asset Structure	3.689	1.609
Interest Loans	3.636	1.436
Age	3.973	1.633
Type of Product/Service	3.554	1.612

Source; Field Data 2019.

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From the table above, the means score of 4.366 for Profitability suggests that, the entrepreneurs strongly agreed to the notion that profitability is very important factor that influences their financing decision. Age of the firm earned a mean score of 3.973, while Size of the firm earned a score of 3.855 suggesting that, they both are vital factors to be considered when making financing decisions. Asset Structure, Interest on Loans and Tenure of Loans earned 3.689, 3.636, and 3.524 scores respectively. However, Type of Product/Service scored 3.554, which was the least in the rank.

5.5 Determinants of Capital Structure

5.5.1 Determinants of the use of Retained Earnings

The researcher attempted to rationalize the relationship between the explanatory variables considered under the study i.e. Profitability, Age and Size, and the response retained profits of the firm. A null hypothesis was postulated which suggested that, the profitability, size and age of a MSME is negatively related to its use of retained profits. To prove this hypothesis, the researcher tested the relationship between the three variables and retained earnings, the results are reported in Table 10.

Table 10: Uses of Retained Earnings

Variable	Coefficient	Standard Error	*t*-value	*p-value*
Constant	0.632	0.036	7.119	0.000**
Profit	0.131	0.076	3.890	0.000**
Age	0.126	0.089	13.357	0.000**
Size	0.164	0.077	1.643	0.001**
R^2	0.664			

**Statistically significant at 95%, dependent variable is Retained Earnings

Source; Field Data, 2019

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From table 10, the output of the multiple regression analysis shows that, the three key variables had a positive and significant effect on the use of the retained earnings in MSME firms at the 5 percent significance level. Thus, the results rejected the null hypothesis suggesting that Profitability, Size and Age of the firm have a positive and significant effect on the use of retained earnings. R-Square value explains the relationship which co-exists between the response and explanatory variable. This implies that, about 66% of the changes in source of finance (retained earnings) is explained by the explanatory variable. These results therefore confirm the Pecking order theory, which states that, "firms prefer to finance new investment, internally with retained earnings, with debt, and later with an issue of new equity". Similarly, Hutchinson (2004) also had comparable results to concerning the choice of using internal sources of capital where he concludes, as the firm expands and grows financially, a continuous preference for internal funds will be realized since the firm will be dependent on its accrued retained earnings.

5.5.2 Determinants of the use of external equity

The researcher attempted to rationalize the relationship between the explanatory variables considered under the study i.e. Profitability, Age and Size, and the response variable i.e. External Equity. A null hypothesis was postulated which suggested that, the profitability, size and age of a MSME is negatively related to its use of external equity. To prove this hypothesis, the researcher tested the relationship between the three variables and external equity. The regression results are reported in Table 11.

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Table 11: Use of External Equity

Variable	Coefficient	Standard Error	*t*-value	*p-value*
Constant	0.340	0.088	29	0.000**
Profit	-0.406	0.029	-1.143	0.014**
Age	0.064	0.013	2.900	0.543
Size	0.090	0.045	0.512	0.578
R^2	0.585			

**Statistically significant at 95%, dependent variable is External equity

Source; Field Data, 2019

From table 11, the output of the multiple regression analysis shows that, out of the three key variables, only profitability had a significant (negative) relationship with the use of external equity as a source of finance. Thus, we fail to reject the null hypothesis only in the case of the profitability variable.

5.5.3 Determinants of the use of debt

Additionally, the researcher attempted to rationalize the relationship between the explanatory variables considered under the study. A null hypothesis was postulated which suggested that, the profitability, size and age of a MSME is negatively related to its use of debt. To prove this hypothesis, the researcher tested the relationship between the three variables and debt. The findings of the multiple regression procedure is reported in Table 12.

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Table 12: Use of Debt

Variable	Coefficient	Standard Error	*t*-value	*p-value*
Constant	0.543	0.036	7.121	0.000**
Profit	0.103	0.069	0.698	0.000**
Age	0.137	0.018	9.576	0.000**
Size	0.153	0.032	22.763	0.000**
R^2	0.599			

**Statistically significant at 95%, dependent variable is Debt

Source; Field Data, 2019

From table 12, the output of the multiple regression analysis shows that, the three key had a significant and positive impact on the use of the debt in MSME firms at any of the conventional significance level. Hence, we reject the null hypothesis, which suggests that Profitability, Size and Age of the firm has a positive and significant impact on the use of debt. R-Square value explains the relationship which co-exists between the explanatory variables and the response variable. This means about 59.9% of the variations in source of finance (debt) is explained by the explanatory variables. Similarly, these results are consistent with that of Hall et al. (2004). Dhawan (2001) also suggested in addition that, to some extent, accessing finance depends on the state of a developing firm. For instance, most developing business often rely on external equity due to issues increasing debt, whereas mature businesses on the other hand are able to utilize their assets as collateral to raise debt financing.

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CHAPTER SIX

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

6.0 Introduction

Chapter six provides a synopsis of the research findings, draws conclusions and offers recommendations based on the findings of the study.

6.1 Summary of Findings

The central objective of this study was to examine and ascertain the key determinants of capital Structure within MSMEs within the Adentan Municipality. Specifically, soliciting for information on implications Profitability, Age and Size of a firm bears on the financing decision from perspective of entrepreneurs and business owners within the Adentan Municipality. To accomplish the objectives of the study, primary and secondary data sources were used. The primary data was collected from key informants being entrepreneurs and business owners using structured questionnaires to collect useful information that can be analyzed. The questions asked by the researcher were in relation to the sources of finance used by the business owners pre-start-up, as well as post start-up phase, and the factors influencing financing decision within their firms.

Findings from the study revealed that majority of the respondents being entrepreneurs were within the age range of 31 to 43, predominantly female and had Diploma as their highest form of formal education. In order to better ascertain to how to what extent we can trust the opinions of the business owners, there was the need to find out the line of business the respondent are currently

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engaged in, the number of years of the business' existence as well as the number of people the business employs. It was found that, majority of the businesses were into general trading, mostly been in operation for between four to seven years and employed between five to fifteen employees.

Views from the respondents helped to identify key sources of finances they utilized at the start of their business and after the first year of operations. The researcher found that, bootstrapping was predominantly the source of finance used at the start of the businesses considered under the study. At the post startup phase, internal equity and retained earnings was the most preferred source of financing by majority of the respondent. The findings above answer the second research question which inquired about the most prevalent source of financing in Ghanaian MSMEs.

A correlation matrix was crafted to show the correlation that exists between the explanatory and response variables. Findings revealed that, a positive correlation exists between debt and the three explanatory variables represented by profitability, age, size of the firm. In the same way, retained earnings also had a positive relationship with the three independent variables. The scores of the correlation matrix further indicated that, a positive relationship exists between age and size of the firm and external equity. However, in the case of profitability and external equity, a negative relationship exists.

Based on likely factors that influence financing decision presented to the respondents which they were asked rate the factors based on how relevant the factors were to their financing decision. Although a smaller percentage of the respondents unsure what exact factors influencing their financing decision, the mean scores suggest that, that majority of the respondents on the other hand

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considered profitability of the firm, tenure of loan, asset structure, size of the firm, interest rate of loan, age of the firm, and the type of product or service offered by the firm as factors that play a significant role in their financing decision making. The regression analysis performed under the study also confirmed significant and positive relationship between all three explanatory variables and sources of finance i.e. retained earnings and debt. Thus two of null hypotheses that was postulated under the study relating to the use of retained earnings and debt that was rejected, suggesting that profitability, size and age of the firm have a positive and significant impact on the sources of finance i.e. use of retained and use of debt. However, for the third null hypothesis, only profitability had a significant and negative relationship with the use of external equity as a source of finance. Thus, we failed to reject the null hypothesis.

6.2 Conclusion

Access to finance has been noted as one of the major constraints faced by MSMEs in Ghana. Some empirical studies on Ghana have also shown that a discrepancy exists between the demand and supply of capital to MSMEs. This is largely due to the problem of information asymmetry pertaining to MSMEs. Other reasons that discourage MSMEs access to financing includes certain banking procedures are unmanageable for MSMEs, there is a lack of economically viable projects, high interest rates on loans and lack of collateral (Buatsi, 2002; Abor, 2004).

Some funding patterns have imperatively impacted the financial structure of firms over the years, two of which includes debt-equity trade-offs and pecking order theories. In spite of literature supporting the use these methods in assessing and understanding the financing structures of listed firms in the context of Ghana, results from such studies for small businesses is limited.

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This highlights the main objective of the study which was to examine the key determinants of Capital Structure of MSMEs within the Adentan Municipality. In this regard, primary data was collected from entrepreneurs and business owners currently with operations within the Adentan Municipality. The data was then coded to enable grouping of the information into limited number of categories which was later analyzed both manually and with the use of computer softwares i.e. Microsoft Excel and Stata statistical tool.

A critical analysis of the findings therefore revealed that profitability, interest rate of loan, tenure of loan, size of the firm, asset structure, age of the firm, and the type of product or service offered by the firm were all found to be relevant to their financing decision. Hypothesis testing was also carried out and it was found that, there is positive and significant relationship between the explanatory variables i.e. profitability, age and size of the firm and sources of finance i.e. retained earnings and debt. These findings reiterate the Pecking Order theory by Myers (1984), and furthermore agree with an earlier studies conducted by Schmid (2001), Hutchinson (2004), and Hol & Wijst (2008).

Agreeably, Hol & Wijst (2008) found that entrepreneurs would rather finance new projects with internal funds as opposed to debt or outside equity once their firms become profitable. Similarly, Hutchinson (2004) found comparable results concerning the choice of using internal sources of capital where he concludes that, as a business expands and grows financially, a continuous preference for internally generated funds will be realized as the firm will be dependent on its accrued retained earnings. Schmid (2001) therefore opined that, MSMEs are faced with a number of challenges when looking for financing, compelling these firms to be more dependent on personal funds, internal equity, and financing from business angels.

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MSMEs in the Adentan Municipality generally fancy conventional and informal sources of funding especially private funding and assistance from friends and family. Conclusively, the findings of this research revealed that, these variables thus, profitability, and size of MSMEs are indeed factors that influence financing decisions, hence determinants of Capital Structure. Although the effects of these variables were tested in this study, profitability, size and age of the firm are not the only factors that influence financing decisions. Other factors such as collateral, risk, culture, asset structure, experience and educational background of entrepreneur, among others also influence the financing decisions of businesses.

6.3 Recommendations

The concept of capital structure is a very vital decision that firms are required to make in order to monitor operations. There are several factors that influence the financing decisions that entrepreneur makes. Current literature suggests that internally generated funds should be ploughed back to enjoy the most benefits from both capital structure theories. In spite of this, by refusing to utilize debt, entrepreneurs may miss out on opportunities to increase the value of their company due to the tax advantage that comes with the use of debt. Each financial decision made is aimed at creating value for the firm. As such, there is the need to ensure that the financing of the firm is at the cheapest cost. Information asymmetry is a factor that prevents MSMEs from gaining access to many debt finance. To be able to overcome this, entrepreneurs must first make significant steps to develop their own capacity. This will equip them with the appropriate knowledge and skills to be able to make financial decisions that yield the utmost returns for their business.

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Also, business owners must endeavor to separate themselves from their business and keep proper records of all their business operations. Such records are very important during the process of accessing debt or external financing. Well prepared financial records, complete with all relevant disclosures and prompt payment to lenders builds high level of trust and confidence in the firm. Furthermore, it is easier for the MSMEs to receive funding from trade credit or informal networks when there is a good business relationship with suppliers and customers.

Nonetheless, the findings of this study are relevant not just to entrepreneurs, but also to policymakers in Ghana. Policymakers must integrate friendly tax systems to encourage MSMES to pay their taxes and allow them to enjoy tax shields on debt financing. A user-friendly accounting system must be implemented to encourage transparency in financial dealings of MSMEs. This will help financial institutions better assess the creditworthiness of MSMEs that apply for loans, thereby improving the access to external funding. The government must also incentivize financial institutions to advance loans to MSMEs and also boost efforts towards providing frameworks that making alternative sources of financing available to MSMEs.

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Appendix A (Questionnaire)

Introduction

I am Richard Edem Kojo Amenyogbeli, a MSc Development Finance Student from the University of Ghana Business School. I am conducting a research on the "**The Determinants of Capital Structure of MSMEs in the Adentan Municipality".** To address the research objective and question of the study, I will be very grateful if could assist me by filling out this questionnaire. Please note that the information you provide is purely for academic purposes and will be treated confidentially with due care. Thank you.

Section A: Demography of Respondents (Please tick only one in this section)

1. Gender

Female ☐ Male ☐

2. Age

18 – 30 ☐ 31 – 43 ☐ 44 - 54 ☐ 55 and above ☐

3. Educational Background

Diploma ☐ HND ☐ Bachelor's Degree ☐ Postgraduate Degree ☐

4. What type of business do you operate?

Trading ☐ Services ☐ Manufacturing ☐ Agriculture ☐ Construction ☐

5. How many years has your business been in operation?

0 – 3 years ☐ 4 – 7 years ☐ 8 – 11 years ☐ More than 11 year ☐

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6. How many part-time or full-time employees does your business have?

1 – 4 ☐ 5 – 15 ☐ 16 - 45 ☐ 46 and above ☐

Section B: Sources of Financing

7. Loan is the main financing source for my business

Yes ☐ No ☐

8. At the start of your business, which of the options below was your main source of financing(primary) and which one was your supplementary source of finance?

	Primary sources	Secondary sources
Personal Savings/Own Funds	1	1
Finance from Family or Friends	2	2
Trade Credit, Leasing or Hire Purchase	3	3
Debt financing	4	4
External Equity Financing	5	5

9. After your first or second year of operation, which of the options below did you use to re-finance your business?

Sources of finance	**Use**
Retained earnings	
Internal source of finance (i.e. Personal Funds, Credit Cards, Funds from family and friends)	
Debt financing (i.e. Commercial loans, , bank overdraft, leasing and hire purchase, factoring or sale of account receivable)	
External equity (i.e. Venture capital, business angels/ private investors, government grants and loans)	

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Section C: Factors Influencing Financing Decision

10. Below are likely factors that influence your financing decision. When making a financing decision for your company, which of the following factors do you consider as important?

1	2	3	4	5
Not Important at all	Not Important	Neutral	Important	Very Important

	1	**2**	**3**	**4**	**5**
Good financial performance over the preceding year					
Tenure of loan					
The types of Asset you/your business own.					
The number of employees working for you.					
The number of years you have been operating.					
Good financial track record					
The interest rate of loans					
Type of product or service produce by the firm					

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11. To what extent do you think each of the following factors listed below will lead to an increase/ decrease in your debt or equity ratio.

1	2	3	4	5
Strongly Decrease	Decrease	No Change	Increase	Strongly Increase

	1	**2**	**3**	**4**	**5**
Increase in Profits					
Increase in your number of employees					
Increase in the number of years of operation					
Expansion of Business					
Financing the business from loans					
Financing the business from equity					
Type of good or service produced by the firm					

12. If you would like to make any comments regarding any of the items included in the questionnaire, please write them in the space provided below.

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THANK YOU

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