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THE FUNDING CYCLE OF SMALL AND MICRO ENTERPRISES IN GHANA: AN EVIDENCE OF STAGE-BY-STAGE SOURCES AND CHALLENGES FROM THE CENTRAL REGION

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Abstract

Small and micro enterprises have become topical in developing countries' efforts to expand and grow their respective economies. The situation in Ghana is said to be a matter of utmost priority. As such, stakeholders in these business units continue to propose the 'right inputs' required of these businesses in order that they contribute meaningfully towards this noble course. Similarly, recent research focus attempts to play a part in highlighting specific areas needing urgent attention in these business units. Using a purposive sampling technique, this study likens a business to a product and considers the critical stages in the business life-cycle in terms of funding needs, sources and challenges at the various stages of the small (130) and micro (255) enterprises (SMEs) in Ghana with evidence from the Central Region. The results indicate that 49% and 22% of the respondents were in their maturity and decline stages respectively with just 20% of the respondents experiencing growth. Critical funding sources in the form of equity and debt per the various stages have been highlighted. Again, regardless of the business segment differences, respondents had operated at most, 50% of their respective start-up operational capacities. Peculiar stage-by-stage funding challenges have been highlighted with future research expected to focus on funding peculiarities and relationship(s) between the stages in the business life-cycle.

Keywords: Business Life-Cycle, Funding Challenges, Funding Sources, Business Segment

INTRODUCTION

Small and micro enterprises (SMEs) have become topical in developing countries' efforts to expand and grow their respective economies. As a developing country, Ghana is geographically demarcated and administratively governed by ten (10) regions. The regions are similarly governed and the Central Region has been geographically divided and governed by twenty (20) areas either in the form of district, municipal or metropolitan depending, among others, on the population, administrative set-up and so on. Each demarcated area has a chief executive appointed by the President of the Republic of Ghana. According to the Ghana Statistical Service (GSS), the Central Region is the fourth poorest region in Ghana (GSS, 2002). The SMEs' growth situation in Ghana is said to be a matter of utmost priority of the government. As such, stakeholders in these business units continue to propose the 'right inputs' required into these businesses in order that they contribute meaningfully towards this noble course.

Similarly, recent research focus attempts to play a part in highlighting specific areas needing urgent attention in these business segments. Precisely, the issue of funding is the focal point by many stakeholders in recent times. From the size of initial capital, sources of the capital, costs and bureaucracy, competing opportunities, management's capabilities in these respects, justification for additional capital, all through to the expected returns. In fact, at the very inception of a business, it is simply a matter of whether to respond to the crucial issue of finance in the affirmative or you shelve the project however lucrative the outlook may be. In other words, the strategic plan of the business right from the beginning revolves round the critical question of funding. This involves the very start-up stage to the others as the going-concern strategy is followed religiously.

Funding a business takes several forms. This includes cash, property, stock, credit facility arrangement and labour efforts. Broadly, they may be acquired from either the equity source of finance (those provided by business owners) or debt source of finance (those provided by other parties other than the business owners). In their view, Grasby*, et al (*2000), stated that there are several sources of financing. The costs, availability and conditions must be analysed for each source in order to obtain the right "fit" for the firm. Financing sources can be categorized into three maturities: short-term, medium-term and long-term. The cost of financing varies directly with the investor's perception of risk of financing.

However, the specific source(s) of funding will largely depend on the financial capacity or situation of the respective business owner(s), mostly with recourse to the ownership structure or arrangement. Again, the source(s), quantum and/or form(s) of funding may realistically depend on the very stage of the respective firm's life-cycle from the start-up. All told, this study looks at the funding cycle of small and micro enterprises in Ghana with evidence of the stage-by-stage sources and challenges from the central region.

The Need for the Study

The need to consider the funding of SMEs arose from the results of a reconnaissance survey, carried out among purposively sampled SMEs in districts within the Central Region of Ghana. These owner-managed businesses had reported that even though the government of Ghana and other institutions continue to pose as helping financially, the private sector, being part of the sector, they are yet to benefit from such financial support. To these businesses, some of the institutions even promise to help at certain stages of specific businesses but again, their presence is yet to be felt. When questioned further about the specific institutions they are looking-up to in this regard, they were unable to mention them. Again, they could hardly give rough funding requirements at the various stages (different output levels) of their businesses. This study however, attempts to fill the gap by highlighting the specific funding sources and challenges at the various stages of the respective small or micro business life. The outcome is expected to provide the necessary information to stakeholders as well as highlight the various (peculiar) funding challenges as a business moves from one stage to another – all aimed at providing a better understanding of the crucial issue of funding.

Objectives of the Study and Research Questions

In order to understand the need for an SME's funding situation, it would be pertinent firstly, to explain the nature of SME in Ghana, how they are set-up and how this affects their business operations (volume) and the associated funding needs. Equally, relevant is the business segment differences in these respects. Secondly, it would be important to identify the various stages of a business life-cycle, peculiar funding needs, sources and challenges. What really enhances or constrains this objective? Are there any peculiar challenges in respect of the business segment differences at these stages in the life-cycle? Thirdly, it is important to highlight deficiencies in these respects in order to assign relevant suggestions for their corrections. Finally, there will be discussions on the implications of inadequate funding knowledge at the various stages in a business life-cycle in order that these businesses would be equipped enough to adapt to these business dynamics in order to contribute to the economy as expected.

LITERATURE REVIEW

The crucial need of funding SMEs has been severally documented. Fact is that the strategic plan of the business right from the beginning revolves round the critical question of funding. According to Myers (1984), strategic planning is many things, but it surely includes the process of deciding how to commit the firm's resources since the financial side of the plan allocates a particular resource, capital. Ghana has shown a lot of commitments to funding the private sector of her economy with a recent assertion that her private sector is her engine of economic growth and transformation. To this end, it has been reported that small and medium enterprises accounted for 15.5% of the labour force as well as 6% of the GDP in 1998 (Quartey & Kayannla, 2000). Again, the AGI (2006) observed that the dynamic role of small and medium scale enterprises in developing countries as engines through which the growth objectives can be achieved cannot be underestimated. In support, Kuffour (2008) noted that the role of small and medium scale enterprises in facilitating global economic development has attracted increasing attention over the past decade. The small business sector is seen as an important contributor in the transition to a market economy, through the processes of innovation, job creation, income generation and business dynamics.

In his recent study of SMEs' cash management practices, Mbroh (2012) stated, "…fact is that the major determinant of a business size is its available capital or funding. This notwithstanding, some business commentators have discarded the notion that finance has been the problem in developing and establishing small and medium enterprises". For instance, Logli (1981), rather attributed the problems in these businesses to how resources are allocated and managed. In contrast, Bosa (1969) maintained that finance is rather the root cause of the problems and was supported by the findings of Levy (1993), Keasey and Watson (1994). Specifically on his part, Attom (2013) stated that micro and small enterprises (MSEs) play an important role in every economy. However, the success of MSEs largely depends on a number of factors including sound cash management practices. Usually though, they encounter a number of challenges including lack of collateral, poor accounts preparation and poor cash management procedure (Naidu & Chand, 2011; Lobel, 2013; Tagoe, Nyarko & Anuwa-Amarh, 2005).

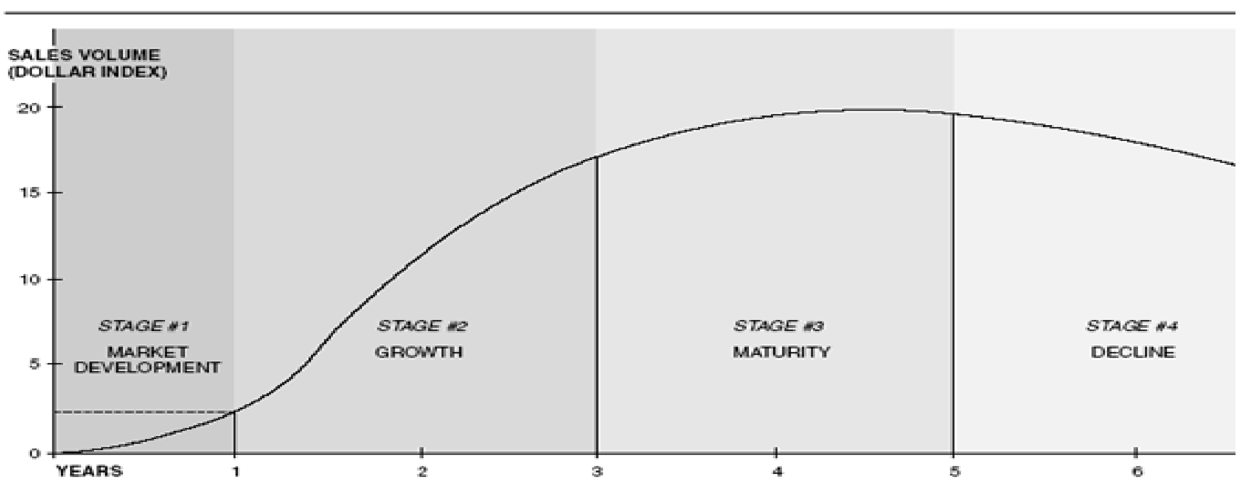
Similarly touching on some funding challenges faced by these businesses, Addai (1994) concluded among others that the major problem with small-scale industries is inadequate finance which had affected 50% of his respondents in addition to high taxation and levies from the Internal Revenue Service and the District Administration respectively. Similarly, commenting of the perceived funding neglect by commercial banks of these businesses, Eyiah (2001) maintained that the main problem small business owners face is finance, as currently the commercial banks operate devoid of a good knowledge of their needs as they perceive the small businesses and their owners as high risk and unprofitable. Quite recently, Mbroh (2011), had observed that funding of small businesses, especially in terms of start-up capital has become a major challenge to date coupled with the way and manner they are established which could settle or unsettle their operations and consequently their growth or otherwise.

Clearly, the specific business life stages and perhaps, peculiar funding needs have not been spelt out. This study however, attempts to fill the gap by highlighting the specific funding sources and challenges at the various stages of the respective small or micro business life. Throughout this study, the words “enterprise” and “business” shall be used interchangeably.

The Conceptual Framework

The product life-cycle theory is an economic theory that was developed by Raymond Vernon in the 1950s in response to the failure of the Heckscher-Ohlin model to initially explain the observed pattern of international trade. Basically, the theory explains the expected life cycle of a typical product from design to obsolescence. In his view, Hedden (1997) observed that the cycle is represented by a curve that can be divided into four distinct phases: introduction, growth, maturity and decline. These are shown in Figure I and occur in the following order:

Figure 1: Product Life Cycle—Entire Industry



Stage 1 – Market Development

This is when a new product is first brought to market, before there is a proved demand for it, and often before it has been fully proved out technically in all respects. Sales are low and creep along slowly.

Stage 2 - Market Growth

Demand begins to accelerate and the size of the total market expands rapidly. It might also be called the “Takeoff Stage.”

Stage 3 - Market Maturity

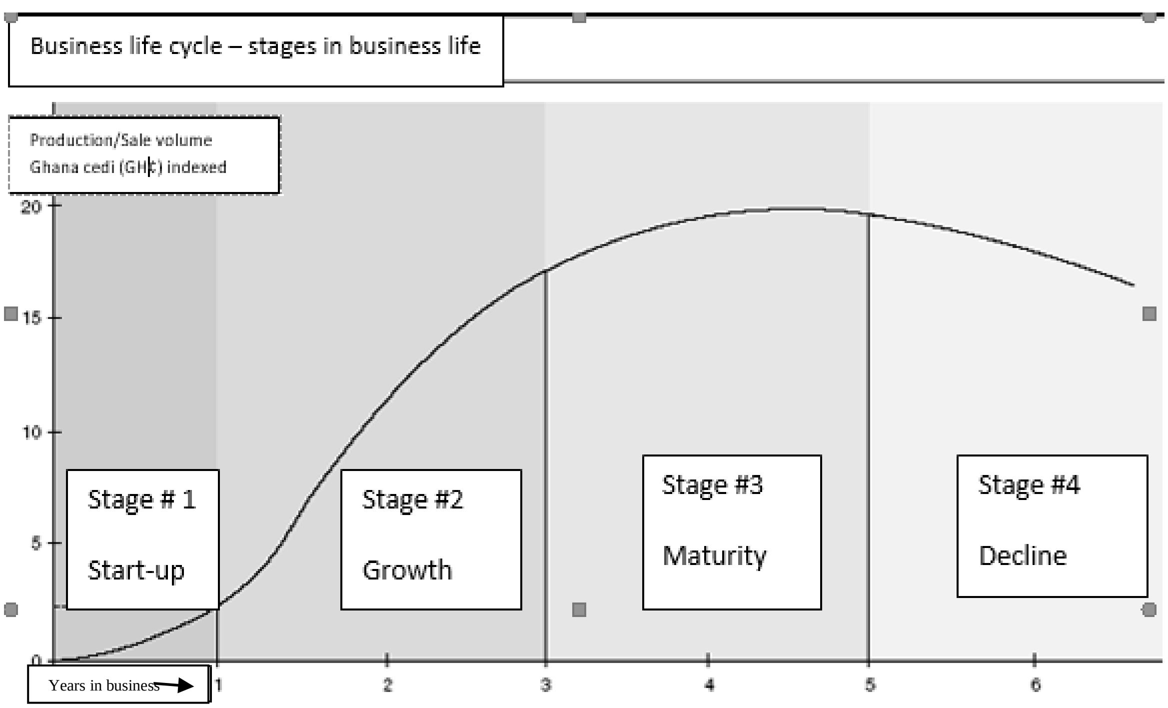
Demand levels off and grows, for the most part, only at the replacement and new family-formation rate.

Stage 4 - Market Decline

The product begins to lose consumer appeal and sales drift downward, such as when buggy whips lost out with the advent of automobiles and when silk lost out to nylon.

The above theoretical concept has been adopted and modified. Specifically, a business is likened to a product with four critical stages as follows: start -up, growth, maturity and decline. Associated with each critical stage are the peculiar funding needs, sources and challenges. This is presented as follows:

Figure 2: Conceptual Model



Source: Authors’ adaption and construct, March 2015.

Stage 1 - Business Start-Up

This is when a business is initially set-up, before there is an awareness of its existence and operations and often before it has been fully proved out technically in terms delivery in all respects. Operations in the form of output, sales and so on are low and creep along slowly. Funding at this stage must adequately be in line with the envisioned strategy of setting the business up. Possible funding challenges include owner's personal financial circumstance and capacity, readiness of family and friends' financial and related support, the extent of reliance on the existing or available financial support from financial institutions and other stakeholders, non-existent goodwill especially if the owner(s) is not having same, suspicious reactions by will-be investor(s) or financiers in this regard. At this stage, possible funding sources may include the owner's personal resources (equity capital which will include funds contributed by other partners, friends and relatives if the business is co-owned), private investors or the so-called business angels (*see* Small Business Reports, 1990; and Zimmer & Scarborough, 1994), government interventions (like the MASLOC, export development and investment fund and the Ghana free zones board), commercial banks, short-term loans (in the form commercial loans, lines of credit and floor planning), intermediate and long-term loans, some form asset-based lenders, trade credit, equipment suppliers, hire purchase, leasing, commercial finance companies, savings and loan associations.

Stage 2 - Business Growth

At this stage, the presence of the business is felt in terms of product, customers and general stakeholders, location, enhanced owner's and business goodwill, attraction by financiers, among others. This will further result in increased volumes in terms of working capital, production and sales, business outlets and other fixed assets, size of market share, level of labour force, profit targets and the prospects of globalization. Funding at this stage must realistically be in line with the envisioned outlook or growth strategy. Possible funding challenges include those cited under the start-up stage but significantly improved at this stage in relevant respects to enhance the growth strategy of the respective business. Depending on the number of years of the respective business, there is likely to be some level of anxiety resulting in some amount of prudential measures by some financiers. Possible funding sources include those outlined under the start-up stage. In addition, based on the attained business status and goodwill at this stage, the business may be able to access 'growth capital' from big corporations/companies, issue shares and bonds, attract venture capital companies as well as insurance policy and mortgage loans, among others (Boachie-Mensah & Marfo-Yiadom, 2005).

Stage 3 - Business Maturity

The business, at maturity, observes non-existent pressure regarding demand levels and basically grows, for the most part, only at the replacement and new family-formation rate. Predictions are often off-target due to competition and customer reactions are frequently uncertain with resultant fluctuating sales volumes. Customer demands in terms of the offered variety, quality and satisfaction are partial in satisfaction with the respective business at this stage. The overall effect is a reduced or perhaps uncertain output in the future. Sales and cash flow situations may equally be uncertain or at best static, possibly reducing the confidence in the respective business by its varying financiers at this stage. Clearly uncertain at this stage, is the going-concern of the respective business which only hope may be a competitively attractive new product(s) or a diversified business sooner than later. Funding implications at this stage considers the development of a new product and other strategies aimed at maintaining the going-concern of the business. Possible funding challenges include those cited under the start-up and growth stages. However, funding prospects may not be as promising as those under the growth stage due to available financial records on the business. Furthermore, leading competitors in the respective industry may be the target of key industry financiers. Again, due the huge costs associated with new product development, the respective business at this stage may have to plough-back profits and/or fall on other resources. Depending on the number of years and the respective firm’s investments (and other assets), reduced business confidence reflecting in possible financial assistance by other financiers may be expected. Again, the possible funding sources include those outlined under the start-up and growth stages.

Stage 4 - Business Decline

At this final stage, the business begins to lose significant sales and profits due to lost consumer appeal which equally forces the business operations to generally drift downward. Redundancies and low levels of output might be glaring to all stakeholders, perhaps, with their varying interpretations regarding the state of affairs at this stage. However, conceptually it is generally assumed that businesses will neither get to this stage nor collapse due to their dynamic and adaptive going-concern strategies. Practically though as it happens, every business management skill must be activated to revive the business. The funding implications emanating from the crucial business survival actions at this stage will be in the form of diversified business lines, products or service, relevant outsourcing undertakings as the situation may dictate, change in business focus, possible desperation with the creation of a subsidiary, possible sale-to-re-establish among others. Funding challenges at this stage include those cited under the maturity stage, though in a much dire situation. However, based on the prevailing financial records at this stage, any external funding prospect may only be under the condition of a merger, an acquisition or at best, partnership. The desperate revival efforts with prompt but huge funding associated with these actions may be internally (equity) funded through to plough-back profits, prior investments and other resources.

METHODOLOGY

The study was conducted on SMEOs within the Central Region of Ghana. There are no reliable data on the number of SMEOs in the region. For this reason, the study adopted the administrative demarcation of the region since it fairly represented the general dynamics in the form of population size, state of infrastructure, volume of commerce, and the concentration of the defined business units. Specifically, the district capitals of the twenty (20) administrative areas were used.

The initial questionnaire was tested and based on the responses'; the final questionnaire was developed and administered. The questions included years or acquired business experience of the respondents, their academic or professional backgrounds, gender differences in these respects, the extent of funding understanding with respect to the various stages in the respective business life, peculiarities in funding with respect to business segment differences, sources as well as challenges and known financiers (institutions) in these respects. However, there were few, perhaps isolated cases where for reasons of illiteracy, an interview schedule was used.

For the purposes of uniformity in the response gathering, five research assistants went into each area capital in a day mainly with the intention to present and retrieve the responded questionnaires from those business owner-mangers who were available and were willing to respond or be interviewed. The respondents were selected on the basis that they were owner-managers of the respective enterprises. The same team administered the questions in all the twenty capitals. A careful consideration of the differences or peculiarities in the business industries or sectors had been made. This is obviously, a form of purposive method.

A total of 450 questionnaires were sent out to the 20 district capital towns but only 385 responded. For the purposes of this study, a SME is selected if the respective respondent's business unit is registered with the Registrar of Companies, owner-managed and the business satisfies any of the following conditions during the reconnaissance survey:

- Employs between 1 and 29 people;
- Has a total fixed assets value between GHS80,000 and GHS200,000 (or USD 20,000 and USD50,000); and

- Has an annual turnover between GHS20,000 and GHS300,000 (or USD5,000 and USD 75,000).

Assumptions and Hypotheses

- The sampled SMEs are representative enough to enable the researcher come to a reasonable conclusion of the study;
- Most of the SMEs surveyed do not properly understand the funding sources, as well as challenges at the various stages in the business life;
- The government of Ghana and other stakeholder groups of the defined business units have designed private sector business management programmes tailored for the SMEOs, but not all owners have benefited; and
- The prevailing situations outlined above do not affect the sampled business funding at the various stages of the respective business life.

ANALYSIS AND RESULTS

Figure 1: Response by District/Municipal and Metro Participation per Business Segment

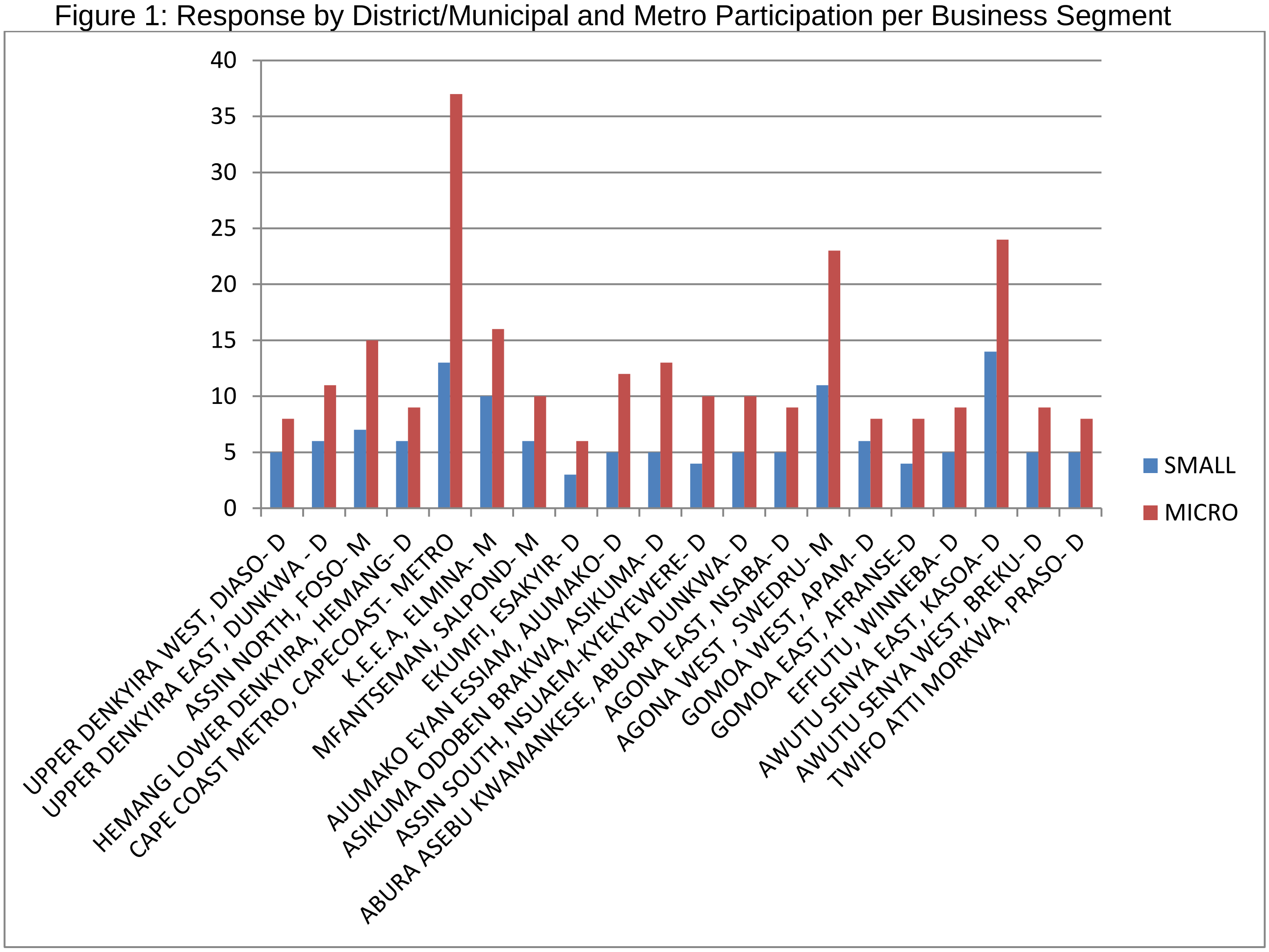
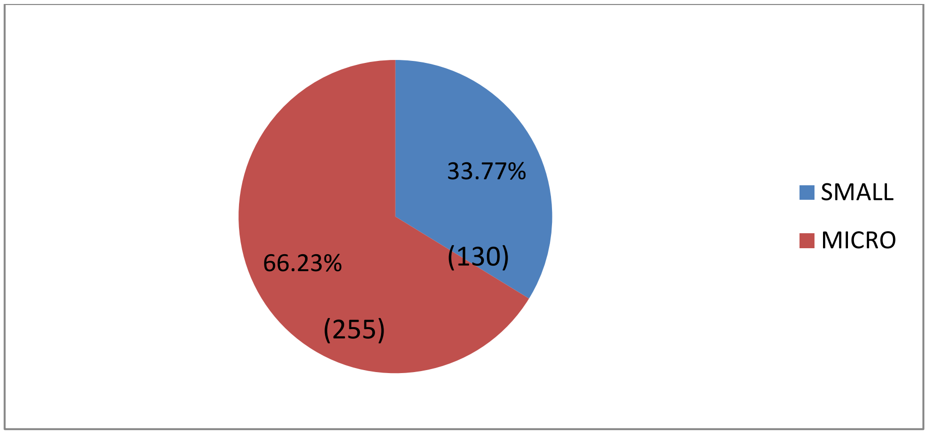


Figure 2: Participation by Business Segments



Gender Dynamics in the SMEs

The results indicate that both male and females are evenly represented in these businesses, with each sex dominating a particular business segment as per Table 1. Specifically, whilst the Males (58.5%) dominate the small business segment, the Females (54.5%) are rather more in the micro business segments. Reason(s) for this situation is however unknown.

Table 1: Gender Participation by Owner-Managers

	Business segment		
Gender	**Small**	**Micro**	**Row Total**
Female	41.5(54)	54.5(139)	50.1(193)
Male	58.5(76)	45.5(116)	49.9(192)
Sample size(%/f)	33.8(130)	66.2(255)	100 (385)

Level of Education of the Owner-Managers

There are several aspects and dynamics in managing a business. These determine the relevant strategies needed to succeed in all respects. However, some of these dynamics may require some form of scientific approach and/or theory. This also makes imperative, the need for a reasonable level of education by the business owner-manager in order to appreciate the critical issues, especially, as the business moves from one stage to another with its peculiar funding dynamics. Similarly, Mbroh and Attom (2012) noted that education is critical in understanding the dynamics and challenges businesses encounter and as such it is expected that if an SMEO has a reasonable educational background, it will undoubtedly enable the owner to either directly or indirectly implement the necessary accounting and control systems. The results in Table 2, show that 13% of the owner-managers had had no formal education of any kind; over 68% had progressive education with the remainder (19%) having basic or functional education.

Table 2: Level of Education of Owner-Manager

	Business segment		
Level of education	**Small**	**Micro**	**Row Total**
None	10.8(14)	14.5(37)	13.2(51)
JHS/MSLC/Primary	13.1(17)	22.4(57)	19.2(74)
RSA/O'Level / A Level/ DBS/SHS	29.2(38)	37.3(95)	34.5(133)
HND/Degree	10.8(14)	9.0(23)	9.6(37)
Masters and above	11.5(15)	9.0(23)	9.9(38)
Professional (eg.MD/ICA /ING.)	24.6(32)	7.8(20)	13.5(52)
Sample size(%/f)	33.8(130)	66.2(255)	100 (385)

Business Industry Participation by the Owner-Managers

A business industry refers to the core business or service offered by businesses. Where particular businesses offer the same or similar core business or service, then these businesses are said to be in the same business industry or sector. Fact is that every business exists in a particular industry, regardless of the size or segment. Again, in their view, Mbroh and Attom (2012), observed that some industries are much more competitive than others depending on factors relating to entry, market share and growth. That, the higher the number of businesses in a given industry, the higher the level of competition a business faces in the respective industry, needless to say that there is competition in every business industry. In businesses, competition is fought with relevantly efficient sharp strategies upon cost-benefit-analysis. In other words, in businesses, strategies and funding are dependent on each other for the purposes of attaining the going-concern.

Table 3 shows that overall, the food, beverage and tobacco industry dominated. However, in the micro business segment, the 1st and 2nd cycle education industry was the highest.

Table 3: Industry Participation by Responded SMEs

	Business segment		
Type of industry	Small	Micro	Row Total
Batique,Garment &Textiles	3.1(4)	10.6(27)	8.1(31)
Building, welding/matal/const	11.5(15)	7.5(19)	8.8(34)
Timber processing	9.2(12)	7.1(18)	7.8(30)
Printing & Paper products	3.8(5)	9.3(32)	9.6(37)
Food, beverage &tobacco	10.7(14)	12.5(40)	14.0(54)
Hospitality	8.5(11)	8.6(22)	8.6(33)
Drinking water production	11.5(15)	1.6(4)	4.9(19)
Automotive product/ services	10.7(14)	6.7(17)	8.1(31)
Education(1st & 2nd cycles)	14.6(19)	4.3(11)	7.8(30)
Soap production	5.4(7)	8.2(21)	7.3(28)
Leather, rubber &plastics	3.8 (5)	7.5(19)	6.2(24)
Herbal, medicine/pharmacy	6.9(9)	9.8(25)	8.8(34)
Sample size(%/f)	33.8(130)	66.2(255)	100 (385)

Years of existence or owner-managers' experience in business

In real life, experience, time or years, training/orientation/education, size of business or work-load, wisdom and traits are closely related. All things being the same, it takes time to acquire the relevant experience in any endeavour regardless of the nature, size and so on. Relevantly enhanced experience in this regard aids in both the real understanding of situations and challenges at all stages in order to offer the most applicable solution and direction. Again, practically in businesses, each stage or strategy would require peculiar funding needs as well as associated challenges. In view of this, it is expected that the longer a business owner stays in business, the more experienced he/she would become in dealing with the business funding needs as and when necessary. It is reasonable to assert to a greater extent that a given business management experience plays a pivotal role in either the growth, survival or failure of the respective business. According to Boachie-Mensah and Marfo-Yiadom (2005), in Ghana, it is estimated that over 60% of new businesses fail within five years and as expected, the small business manager would need to have experience and knowledge in the field one wants to enter. Furthermore, they maintain that managerial inexperience in most small businesses is identified as the major problem of the failing enterprise. The results (Table 1) show that 52.2% of the respondents have been running their business over 5 years now with about 5% of the respondents who had just established theirs within the last year.

Table 4: Years in business (experience) as an SME

Number of years in business

	Up to 1yr	1-3yrs	3-5yrs	Above 5yrs	Row Total
Small (%/f)	31.6(6)	33.3(14)	29.3(36)	36.8 (74)	33.8(130)
Micro (%/f)	68.4(13)	66.7(28)	70.7(87)	63.2(127)	66.2(255)
Sample size	4.9(19)	10.9(42)	31.9(123)	52.2 (201)	100 (385)

The four critical stages in the business life-cycle

Every business, regardless of its successes, years in operation, size, nature and so on, goes through stages starting from its start-up stage. Directly related to the attainment or otherwise of these stages are the strategies and available funding. For example, there could be a business situation where there are perfect strategies in place but these are not supported by the needed funding and vice versa. In these two scenarios the consequences of the respective business may not be as strategised. In fact, a business strategy and its associated funding appear to be interdependent on each other. For instance, without the relevant funding, a perfect strategy, at best, may be partially attained. Also, if a business does not get the funding needs right at any given stage in its life, the associated challenges at that stage are likely to thread-on into another stage(s). The situation may also change the entire strategy significantly.

Quite specifically, the funding dynamics at the start-up stage may be daunting, just as peculiar as the other stages. Clearly, based on the start-up strategy in terms of business size, operational volume and so on, the start-up stage may not necessarily be dependent on time but relevantly adequate funding. However, as a business starts operating, it is technically taken that start-up is complete. The total anxiety with constant reminders of the impending risk and the alternative use(s) of the available funds dominate at the start-up stage. Accepting this challenge requires making available, adequate proportions of fixed and working capitals.

The attainment of the growth stage may not necessarily be time-bound as well. After the start-up, the growth stage is attained if constant expansion is observed in terms of production and sales volumes resulting in profits as well as expanded operational capacity and outlets. The start-up capacity is expected to generate100% related production and sales levels and in excess of these levels, any extra percentage (%) production or sales as well as extra business capacity is taken as growth attained. Fact is that capacity is very expensive to raise but when this is done, there will be additional funding implications in terms of working capital.

A business enters its peak or maturity when its growth, in terms of sales and profits are halted. At this stage, the respective business relies on its so-called ‘valued-customers’ to maintain business levels without real improvement to the existing indicators. It is expected that the main reason for even attaining such a near-static level is the marginal increases in customer base which also offsets frequent reductions or losses in existing customers. Often this situation is attained after exhausting relevant marketing skills and efforts. At this stage, the going-concern of the respective business hinges, among others, on a new product or some form of diversification including that of the core business. All told, both possibilities require huge funding in order to keep the going-concern dream alive.

Decline is a stage of consistent fall in revenues and consequently profits, period after period due to the nature of the respective industry's competition, financial/business mismanagement, extent and impact of technological advancement and changes, trade restrictions, among others. In order to survive the decline stage, the respective business is expected to employ mitigating strategies and compromises including relevant outsourcing arrangements, introduce new or additional products and services, diversify the core business and so on. Meanwhile, the finances of the respective business at this stage maybe suffering the consequences of the decline, especially, if proper investments were not made at the earlier stages to deal with the financial short-fall.

The results (Table 5) show the stage in the business life-cycle of the responded businesses. Overall, 49% of respondents stated that they were in their maturity stage, 22% were in the decline stage and the 20% and 8% were in the growth and start-up stages respectively.

Table 5: Please, indicate the present stage in your business life-cycle

Present stage in business life-cycle	**Small**	**Micro**	**Row Total**
Start-Up	10.8(14)	6.7(17)	8.1(31)
Growth	24.6(32)	18.0(46)	20.3(78)
Maturity	51.5(67)	48.2(123)	49.3 (190)
Decline	13.1(17)	27.1(69)	22.3(86)
Sample size (%/f)	33.8(130)	66.2(255)	100 (385)

The main components of funding at the Start-Up stage

A particular business maybe set-up after several strategic considerations regarding possible business options, associated funding as well as returns, the going-concern and so on. Regardless of the related strategy, be it product or service differentiation, size, location and/or industry, every business aims to make profits, which at this stage, maybe deduced from possible customers that the business is likely attract. In his view, Drucker (1974) observed that businesses have changed and changing as a result of a focus on the customer and that a business must first be able to create a customer. However, in all these, the realization of the start-up depends, to a greater extent, on the available funding in terms of its associated cost, source, size and mix (which also determines the proportions of fixed and working capital), delivery period and management (allocation and control). For instance, if a business has the right quantum or size of start-up funds from an expensive source, it may cause problems in terms of the business survival and/or growth and as such, the funding source(s), size and costs must always be carefully weighed at this crucial stage. Every respondent had experienced the start-up stage funding sources, challenges and so on. Results in Table 6 show that overall, 69% of the businesses were started with the owners' financial resources with support from family and friends. Some 23% of them had borrowed 20% of their start-up capital with the remainder borrowing 50% of their start-up funds. This situation was similar in the business segment differences.

Table 6: Major funding mix at the Start-Up Stage

Funding mix (%)	Small	Micro	Row Total
100% Equity (owner, family & friends)	75.4(98)	65.5(167)	68.8(265)
80-20 Equity / Debt	16.2(21)	27.1(69)	23.4(90)
50-50 Equity / Debt	8.4(11)	7.4(19)	7.8(30)
30-70 Equity / Debt	n/a	n/a	n/a
10-90 Equity / Debt	n/a	n/a	n/a
100% Debt (Loans, etc)	n/a	n/a	n/a
Sample size (%/f)	33.8(130)	66.2(255)	100 (385)

The main composition of funding at the Growth stage

A business growth is witnessed when production capacity, output in terms of sales and profits exceed similar variables, period after period, relating to the start-up. In other words, in respect of these variables, start-up is taken as 100% and using this as a base, any percentage in excess of this 100% base (progressive), period after period, represents growth. Quite obviously, a business would experience growth having been accepted by both customers and its stakeholders. This implies that at the growth stage, the respective business must have attained a relative clout of goodwill which often becomes useful in seeking reasonable amount of external or subsequent funding. However, the existing growth strategy and financial management skills of the respective business will certainly be crucial in dealing with funding needs, sources and their utilization at this stage. Respondents in this category were 354 in total. The results indicate that overall, 40% of them (majority) contracted loans from financial institutions in funding their growth strategies. Again, this trend appears similar to the business segment differences.

Table 7: The major funding mix at the Growth Stage

Funding mix (%)	Small	Micro	Row Total
100% Equity(owner, family & friends)	23.3(27)	21.8(52)	22.3(79)
80-20 Equity / Debt	18.1(21)	18.1(43)	18.1(64)
50-50 Equity / Debt	20.7(24)	11.3(27)	14.4(51)
30-70 Equity / Debt	n/a	n/a	n/a
10-90 Equity / Debt	n/a	8.0(19)	5.4(19)
100% Debt (Loans , etc)	37.9(44)	40.7(97)	39.8(141)
Sample size (%/f)	32.8(116)	67.2(238)	100 (354)

Major composition of funding at the Maturity stage

This is the highest attainable success of the business in terms of operating capacity, stakeholder goodwill and external funding, customer attraction and market share resulting in sales and profitability as well as general growth. Relatively, such a well-known business at this stage is expected to have several sources of funding even though prudent utilization of this opportunity is required of the respective business manager(s). The businesses in this category were 71.6% (276) of the total respondents. Table 8 shows that majority (35%) of this proportion mainly sought 20% of their funding at this stage from financial institutions in the form of loans. Specifically, majority of the respondents from the micro business segment either held a similar position (40%) or instead, sought 50% of the said debt proportion (35% of respondents). The situation was however different among the small business segment of the respondents, where majority (35%) had rather indicated that all their funding needs at this stage were from institutions in the form of loans.

Table 8: The composition of funding at the Maturity Stage

Funding mix (%)	Small	Micro	Row Total
100% Equity (owner, family &friends)	19.0(16)	15.1(29)	16.3(45)
80-20 Equity / Debt	25.0(21)	39.5(76)	35.1(97)
50-50 Equity / Debt	9.5(8)	35.4(68)	27.5(76)
30-70 Equity / Debt	n/a	n/a	n/a
10-90 Equity / Debt	11.9(10)	3.6(7)	6.2(17)
100% Debt (Loans, etc)	34.5(29)	6.3(12)	14.8(41)
Sample size (%/f)	30.4(84)	69.6(192)	100 (276)

The dominant funding mix at the Decline stage

This is a stage where reduction upon reductions occurs period after period mainly because the core business is swiftly losing grounds in the sight of customers and general stakeholders (lost goodwill). Devoid of macroeconomic factors, management's strategies and general handling of business matters may plunge a business into this downward state of affairs. The extent of competition in the respective industry, technological advancement and changes as well as management knowhow may be popular causes. However, funding may depend on management's competence up to this stage – for instance, the nature of business investments undertaken in the era of growth or good business may count significantly. In addition, the extent of lost goodwill may create uncertainty in attracting funding from other sources at this stage. Overall, 56% of respondents stated that their main funding source was from the owner, family and friends (equity), perhaps, due to lost confidence by external financiers. The remainder had external funding in the form of loans but this did not exceed 50% of the relevant funding needs. Specifically with the small business segment, the main source of funding was similar to the above (71% equity funded) however, the remainder could only obtain 20% of their funding needs externally (in the form of loans) at this stage. On their part, 47% of the micro business segment could obtain up to 50% of the needed funding in the form of loans.

Table 9: The nature of funding (mix) at the Decline Stage

Funding mix (%)	Small	Micro	Row Total
100% Equity(owner, family & friend)	70.6(12)	52.2(36)	55.8(48)
80-20 Equity / Debt	29.4(5)	30.4(21)	30.2(26)
50-50 Equity / Debt	n/a	17.4(12)	14.0(12)
30-70 Equity / Debt	n/a	n/a	n/a
10-90 Equity / Debt	n/a	n/a	n/a
100% Debt (Loans, etc)	n/a	n/a	n/a
Sample size (%/f)	19.8(17)	80.2(69)	100 (86)

Operational volumes frequently attained per stage in the business life-cycle

Capacity is expensive to mount in businesses. It takes at least more than a year to pay-off the cost of capacity, though this may depend on the size of business and the related capacity as well as source of funding. A given capacity determines the extent to which a business can go in terms of operational volume or output. Thus if a business operates below its established capacity, it implies that such business is not adequately recovering its capacity (fixed) costs and there must be cause for concern by the owner (manager). The results (in Table 10) indicate that at the start-up stage, overall, 69% of respondents were operating only a quarter (25%) of their respective start-up capacities. The remainder operated 50% of the said capacity and this trend was the same with the business segment peculiarities. Respondents who had experienced the growth stage were 354. However, for unknown reasons, it appears that a reasonable proportion (32%) of these businesses struggle to operate at full (100%) start-up capacity. In principle, real growth had been attained by 68% of overall respondents in this category. Again, this trend was similar to those of the business segment differences. Businesses that had tasted the maturity stage totaled 276 (72% of overall respondents). The results indicate that perhaps due to some fluctuations in operations at this stage, 79% of this proportion had operated at 95% of capacity at this stage. The remainder (21%) operated at full capacity. This trend was similar to those of the two business segments. It is worthy that it is rarely the case that a business would expand with many branches and perhaps with increased capacity beyond that of start-up stage. Respondents who had experienced the decline stage were 86 (22% of overall respondents). Many (87%) of these were operating around 75% of the respective start-up capacities. The remainder operated at near-full capacity.

Table 10: Production / Sales volume per the stage in the business life-cycle

Operating capacity (%)	**Start-Up**	**Growth**	**Maturity**	**Decline**
	S / M (T)	**S / M (T)**	**S / M (T)**	**S / M (T)**
25% of Capacity	87/179 (266)	n/a	n/a	n/a
50% of Capacity	43/76 (119)	n/a	n/a	n/a
75% of Capacity	n/a	11/27(38)	n/a	15/60(75)
95% of Capacity	n/a	21/ 55(76)	73/146(219)	2/9 (11)
Over-Stretched Capacity	n/a	49/105(154)	11/ 46(57)	n/a
Expanded capacity (>100%)	n/a	35/51(86)	n/a	n/a
Sample size (f)	130/255(385)	116/238(354)	84/192 (276)	17/69 (86)

The funding size or level obtained per the stage in the business life-cycle

Funds are the means by which business strategies are achieved. Thus, funds are raised for a clear purpose. The purpose may dictate the size, form and the timing of the funds. Even though they may be in various forms and sources, the overall funding requirement may be ascertained through the operational plan at any given stage of the respective business. The above notwithstanding, the required size of funds has often depended on availability of funds in terms of sources, cost, timing, forms and so on. Table 11 shows the size of funding actually obtained by the businesses at the various stages in their business life-cycle, assuming that the start-up is estimated at 100% size. Majority (62%) of respondents indicated that at the start-up stage they could not obtain the needed funding and as a result, had to establish with what they had. All though this situation would often require practical adjustment(s) to the business start-up strategy, the situation may, at best, slow-up the respective business survive and consequently, growth. The remaining 32% had started their businesses with full funding as planned. At the growth stage, 18% of respondents continued to utilize their start-up funding capacity. This confirms the situation where respondents had indicated to be in the growth stage whilst in principle they were still in the start-up stage. Almost half (49%) of respondents in this category added 50% more funds to their respective start-up funds at this stage. Thirty percent proportionately doubled their start-up funds at this stage. This trend was the same with the business segment differences; however, about 3% of the small business respondents had added 150% to their start-up funds at this stage. Respondents were 276 at the maturity stage. Overall, funding had fluctuated - some (40%) respondents observed 10% more, some (41% of respondents) had 15% less and others (19% of respondents) had 5% more based on their respective growth stage situations. Based on their respective funding situations during the maturity stage, respondents (86) at the decline stage observed reductions from 23%, 33% and 44% respectively.

Table 11: Funding obtained (level used) per the stage in the business life-cycle

Funding size (value)	**Start-Up**	**Growth**	**Maturity**	**Decline**
	S / M (T)	**S / M (T)**	**S / M (T)**	**S / M (T)**
Less than 100%	66/172 (238)	n/a	n/a	n/a
Start-Up or 100%	64/83 (147)	13/52(65)	n/a	n/a
Start-Up + 50%	n/a	55/119(174)	n/a	n/a
Start-Up + 100%	n/a	39/67(106)	n/a	n/a
Start-Up + 150%	n/a	9 / - (9)	n/a	n/a
Start-Up + >200%	n/a	n/a	n/a	n/a
Growth + 10%	n/a	n/a	34/76(110)	n/a
Growth - 15%	n/a	n/a	31/81(112)	n/a
Growth + 5%	n/a	n/a	19/35(54)	n/a
Maturity – 20%	n/a	n/a	n/a	3/17(20)
Maturity – 28%	n/a	n/a	n/a	9/29(38)
Maturity – 35%	n/a	n/a	n/a	5/23(28)
Sample size (f)	130 /255(385)	116/238(354)	84 /192 (276)	17/69(86)

The main sources of funding used at the various stages in the business life-cycle

Sources of funding a business are crucial in business management. Managers spend years with several strategies in order to create business-friendly sources of funding. This is because as a business operates at different output levels over time, it may require external funding in form of negotiations and agreements. For instance, Mbroh (2011) noted that no business can afford to buy all the materials required for the manufacture of goods for sale with cash. In some cases they have to negotiate with suppliers for credit and in most cases, businesses succeed in procuring stock on a short-term credit basis. From Table 12, majority (50%) of respondents had used owners' equity to start-up their businesses. Again, about 17% of the respondents had used loans from commercial banks, asset-based lending (by the small business segment) as well as finance, savings and loans institutions to start-up their businesses. Majority of respondents (37%) had used trade credit and similar lines of credit to finance their growth stage. However, loan-related financing from the commercial banks and other loans institutions accounted for

39% of the respondents at this stage. At the maturity stage, loan-related financing was used by 37% of respondents with trade and similar lines of credit being a single source of funding used by some 30% of respondents. Similarly, 28% of respondents at the decline stage used trade and similar lines of credit with loan-related funding used by 28% others at this stage.

Table 12: Main source(s) of funding per the stage in the business life-cycle

Main source(s) of funding	**Start-Up**	**Growth**	**Maturity**	**Decline**
	S / M (T)	**S / M (T)**	**S / M (T)**	**S / M (T)**
Owners' equity(incl. Family &friends)	79/113(192)	18/33(51)	13/29(42)	8/13(21)
Business angels	n/a	n/a	n/a	n/a
Gov't intervention (Masloc,EDIF,etc)	13/44(57)	16/19(35)	5/44(49)	-/12(12)
Commercial banks	8/5 (13)	40/37(77)	23/ 48(71)	3/6(9)
Trade and similar lines of credit	11/61(72)	34/97 (131)	31/53(84)	5/19(24)
Asset-based lending/hire purchase	7/- (7)	n/a	n/a	n/a
Finance/savings &loans firms	12/32(44)	8/52(60)	12/18(30)	-/ 15(15)
Venture capital/big companies	n/a	n/a	n/a	n/a
Issue of shares and bonds	n/a	n/a	n/a	n/a
Partnership, mergers & acquisitions	n/a	n/a	n/a	1/ 4(5)
Sample size (f)	130 /255(385)	116/238(354)	84 /192 (276)	17/69(86)

The main funding challenge(s) encountered at the various stages in the life-cycle

Funding SMEs is not without challenges. They encounter a number of challenges including lack of collateral, poor accounts preparation and poor cash management procedure (*see* Naidu & Chand, 2011; Lobel, 2013; Tagoe, Nyarko & Anuwa-Amarh, 2005). In his view, Addai (1994) concluded among others that the major problem with small-scale industries is inadequate finance which had affected 50% of his respondents in addition to high taxation and levies from the Internal Revenue Service and the District Administration respectively. Similarly, Eyiah (2001) maintained that the main problem small business owners face is finance, as currently the commercial banks operate devoid of a good knowledge of their needs as they perceive the small businesses and their owners as high risk and unprofitable. Quite specifically, Mbroh (2011), had observed that funding of small businesses, especially in terms of start-up capital has become a major challenge to date coupled with the way and manner they are established which could settle or unsettle their operations and consequently their growth or otherwise. Indeed the challenges begin with the very extent of management knowhow and dynamism in dealing with all business funding situations as and when necessary. A manager's relevant experience and ability to strategise could make all the difference in this regard. For instance, a manager's ability to predict the funds needed, relevant components and sources, business-friendly agreements, the delivery time as well as their strategic allocation for the required returns are crucial in this respect.

Fact is that every business goes through stages in its existence and every stage may have peculiar funding needs and challenges. Table 13 shows the major funding challenge(s) encountered by the businesses at these stages respectively. At the start-up stage, the main funding challenge encountered by respondents was a strong suspicion held by possible financiers that these businesses are unprofitable. This was followed by the challenge that most business owners did not have the necessary start-up funds. On the other hand, collateral and loan guarantees frequently demanded by banks and financial institutions was the leading funding challenge by the businesses at the growth stage. This was followed by lack of goodwill and poor financial records keeping. The main funding challenge at the maturity stage was the fact that financiers were seen to be selective and often considered leading firms in the respective industry, followed by an often weak financial position to turn the business growth back on track. Finally, the main funding challenge at the decline stage was either the financiers' prudential measures imputed in loan terms or the fear of capacity to repay loans, followed by an obviously weak financial position to support the business to regain growth.

Table 13: Main funding challenge(s) per the stage in the business life-cycle

Main funding challenge(s)	**Start-Up**	**Growth**	**Maturity**	**Decline**
	S / M (T)	**S / M (T)**	**S / M (T)**	**S / M (T)**
Owners' weak financial position	21/76 (97)	10/42(52)	3/45(48)	5/17(22)
Business angels' terms/conditions	n/a	n/a	n/a	n/a
Uncertainty with gov't sources	15/33(48)	5/23(28)	5/27(32)	n/a
Collateral and guarantees by banks	27/35(62)	39/57(96)	14/25(39)	n/a
Capacity to repay(loan terms)	19/30(49)	20/19 (39)	11/19(30)	4/21(25)
Non-existent goodwill/fin. Records	6/23(29)	4/47(51)	4/7(11)	2/5(7)
Suspicion- unprofitable venture	42/58(100)	23/18(41)	9/8 (17)	6/9(15)
Preference-only leading firms	n/a	15/32(47)	16/47(63)	n/a
Market uncertainties/sales fears	n/a	n/a	22/14(36)	-/17(17)
Non-performing business	n/a	n/a	n/a	n/a
Sample size (f)	130 /255(385)	116/238(354)	84 /192 (276)	17/69(86)

CONCLUSION AND RECOMMENDATIONS

The findings indicate clearly, how important the business life-cycle stages are in terms of business funding peculiarities. Every stage of the business has different outlook which may require specific financial needs, perhaps sources and challenges. Indeed, the whole concept of SMEs' funding would be better appreciated and may be responsive to the needs if the stages of the business life are brought into focus. Each stage either precedes or proceeds the other in a complimentary growth strategy of the respective business. This implies that every stage in business would require unique funding considerations without which the stage specifics would not have been factored in the respective funding plan of the business. The study concludes that majority (49%) of the respondents were in the maturity stage in their respective business life-cycles. Over 22% of them were already in the decline stage and those in the growth stage were 20% of the respondents. However worrying, is the situation where only 8% of the sample businesses had been established within the last year. The Government of Ghana on its part has established interventions and created several departments and agencies in addition to licenses that it has issued to a host of NGOs to operate in this sector of the Ghanaian economy.

At the start-up stage, majority (69%) of respondents had funded their business with equity with the specific funding sources being owners' personal resources including those from family and friends. Majority (40%) had funded the growth stage with 100%-debt capital in the form of loans, trade and similar lines of credit. On the other hand, majority (35%) of businesses at the maturity stage funded their businesses with 80%-equity and 20%-debt (in the form of loans) capitals. The decline stage witnessed a situation where majority (56%) of respondents in this category had funded their businesses with all-equity and the specific funding sources being owners' personal resources including those from family and friends.

Quite worrying is the situation where the respondents operate only up to 50% of their start-up capacity having been established. The results indicate that a reasonable number of the businesses (32%) are unable to recover their start-up capacities as they operate below their capacities, even at the growth stage. Fact is that only 68% of the growth stage respondents had actually attained growth in principle.

The main funding challenge encountered by majority (26%) of respondents at the start-up stage was a strong suspicion held by possible financiers that these businesses are unprofitable. Collateral and loan guarantees demanded by banks and financial institutions was the leading funding challenge by the businesses at the growth stage. The main funding challenge at the maturity stage was the fact that financiers were seen to be selective and often considered leading firms in the respective industry. The related challenge at the decline stage was either the financiers' prudential measures imputed in loan terms or the fear that they lacked capacity to repay the loans. It is equally concluded that the scope of current research has frequently been too broad, often lumped together ignoring their related peculiarities and as a result, lacked the relevant details in resolving specific problems affecting the selected businesses and the subject of funding is no exception.

The businesses in both the maturity and decline stages are really alarming and as such it is recommended that government agencies, licensed NGOs and indeed, all stakeholders urgently go to their rescue in order that the situation does not further deteriorate. On their part, the businesses are expected to, as a matter utmost priority and interest, seek the necessary business management knowhow and skills in order to properly deal with the present deficiencies subsisting between their established capacities and existing operational levels. Again, proper business documentation and relevant records keeping may be long-overdue in dealing with the negative perceptions and excessive prudential measures by their possible financiers. The financiers on their part are expected to treat the businesses as partners in development. This way, they would seek relevant avenues of understanding the peculiarities in these businesses in order to assist them. Future research is expected to consider the funding peculiarities and relationship(s) between the stages in the business life-cycle.

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