Effect Of Equity Financing Options On Growth Of Small Businesses In Accra Metropolis

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Abstract- Equity financing is especially critical for businesses with a high risk-to-reward profile, such as startups and small businesses. The purpose of this study was to find out the effect of equity financing options, specifically internal and external equity, on small business growth in the Accra metropolis. This study used an explanatory research design. The population of the study was 257 small businesses in the Accra Metropolis registered with the Ghana Enterprise Agency. The statistical tools for analysis were the Statistical Product for Service Solution (SPSS version 24) and Smart PLS (version 3). The study's findings revealed that, while both internal and external equity had a significant and positive effect on small business growth. Small businesses prefer internal equity to external equity and resort to debt, particularly in the form of trade credit and bank loans (after exhausting internal equity options such as personal savings and support from family and friends) before considering external equity financing options (such as accelerators, angel investors, crowdfunding, and venture capital) which are yet to gain acceptance. The study recommends small businesses take advantage of external equity financing options like accelerators, angel investors, crowdfunding and venture capitalists because not only do they supply funds but provide advisory services and help professionalize the small businesses. The government can develop an enabling environment for more equity providers, particularly private equity providers.

Index Terms- Equity financing, small businesses, Growth, Accra Metropolis, Capital

I. INTRODUCTION

Finance, in a lot of research, is known to promote development at the macro level, and cross-country level (Turkson, Amissah & Gyeke-Dako, 2020). Cross-country results on the other hand however failed to capture individual country heterogeneity. Furthermore, they made mentioned the fact that finance and development in individual countries had also been studied and the focus on countries had the advantage of capturing specific features of those countries.

Notwithstanding, the problem with this approach was that it required a long period to obtain consistent estimates from such studies (Christopoulos & Tsionas, 2004). Unfortunately, in African countries, such long-time series were not always available. Firm-level studies had gained popularity due to their ability to provide a clearer understanding of the relationship between finance and development while still accounting for a variety of factors. In developed countries, firm creation and productivity were two of the most important factors of economic growth (Beck, Demirgüç-Kunt, Laeven & Maksimovic, 2006; 2011). As a result, researchers shifted their focus to firm-level research to achieve the objective of greater economic growth resulting in many researchers and policymakers becoming concerned about understanding business growth.

According to Owusu, Osman, Ismail, and Latif (2017), Ghana was yet to witness the tidal wave of development fueled by small businesses. In developing countries, small businesses were known as the engines of economic development. Muritala, Awolaja, and Bako (2012) came to the same conclusion, claiming that small businesses were more likely to use labour-intensive technologies, thereby reducing unemployment by championing job growth, creativity, and the production of new goods and services. However, sourcing finance remains a major hurdle for small businesses which tends to interrupt and hinder their start-up and growth (Njeru, 2013). Also, there was a higher chance of small businesses especially in Africa failing within the first two years of starting a business (Kamunge, Njeru & Tirimba, 2014).

Growth, according to Ronninko and Autio (2012), is a change in size from one period to the next. The phrase "growth" refers to a change in sales, profit, personnel, or the number of assets in the case of a company (Chen et al., 2013). Small businesses must choose an adequate source of financing to sell their products and services, increase manufacturing capability, and maintain ample operating cash flow (Grover & Suominen, 2014). Access to finance remains essential for small businesses as it affects their growth; with main funding coming from banks, venture capitals, crowdfunding, business angels, securitization, leasing, microfinance, and corporate bond markets (European Commission, 2017). Many factors account for small business financing varying from large business financing (Howorth, 2001; Elaine, Angelo, Ana & Ricardo, 2005; Mac & Lucey, 2010).

Equity financing looks at business individuals investing their personal or corporate pool of monies into their businesses (Githire & Muturi, 2015). Equity capital may be internally generated in the form of share capital or common stock, preferred stock, share premium, capital surpluses, as well as reserves in the financial statements reflecting shareholder's interest in a venture or externally from venture capital, angel investors, and in recent times, crowdfunding, and accelerators (Choi, 2014; Ehigiamusoe & Lean, 2017). Chadha and Sharma (2015) suggested that equity holding brought about long-term commitment to the firm in anticipation of future growth and stipulated that equity financing was more flexible than debt as investors potentially tried as much as possible to work and align interest with that of the management for utmost value within their investment period. As a result, equity funding was a preferred method of financing in terms of accelerating growth and, eventually, improving financial efficiency (Achieng, Muturi, & Wanjare, 2018). The study adopted the definition of small business by Amarteifio and Frimpong (2019) as a business that had employees between 0 and 100 persons. As such, microbusinesses with less than 5 employees, small businesses with 6 to 29 employees, and medium businesses with 30 to 99 employees were all collectively classified as small businesses in this study.

For entrepreneurs to play a critical role in the economy, they ought to be able to obtain external funding in a variety of ways to achieve their growth goals (Harding & Cowling, 2006). Similarly, according to Hamilton (2010), small businesses that were able to secure external equity sources of capital from business angels or crowdfunding were pursuing faster growth and willing to take greater risks than their counterparts. Firms with a higher growth tendency had a higher debt level of external funding than firms with a lower growth inclination. To this end, small businesses ought to access external sources of funding, whether equity or debt, to develop, expand, and thrive (Cassar, 2004; Harding & Cowling, 2006).

There is therefore the need for more research into equity and the growth of small businesses in Ghana. It was against this backdrop that there was the need to look more at equity funding, especially its options (internal and external sources) available and/or in use and its effect on the growth of small businesses in Ghana.

II. Sources of Small Business Finance

Small businesses undoubtedly are important however per the World Bank Report (2010), their failure was because of limited access to finance. Empirically, documented research on small businesses showed that there existed a varying financing pattern of small businesses from larger ventures which could be attributed to the existence of fixed costs from external financing, with small businesses generally refinancing less frequently than larger firms since they tend to be much affected by fixed costs causing them to operate at a higher leverage level instead of rebalancing (Howorth, 2001; Mac & Lucey, 2010; Elaine, Angelo, Ana & Ricardo, 2005; Chepkemoi, 2013).

A study by Njagi, Kimani, and Kariuki (2017) also attested to the fact that small businesses preferred contributions from friends as well as plough back profit for equity finance. According to the report, Angel investors were yet to gain acceptance as a source of equity financing in Kenya, even though foreign equity financing could be viewed as a long-term financing choice with no or limited cash outflow in the form of interest. Most significantly, the study found that the funding choice and liquidity position of a small company had a significant impact on its efficiency. As a result, they advised small businesses to seek out angel investors, who provided start-up capital, managerial and bookkeeping skills, and encouraged transparency and efficient use of financial resources. Furthermore, the study equally advocated for financial institutions to expose and educate entrepreneurs on alternative financing options for small businesses.

Abor and Biekpe (2006) suggested for more policies to be enacted, which would fundamentally be geared toward small businesses' access to public equity in Ghana through reduced listing requests and subsidizing inauguration costs. This, they claimed, would increase small businesses' access to long-term financing, spurring growth because equity capital serves as a foundation for more borrowing, reduces a venture's vulnerability to economic cycles, and offers access to private and institutional venture capitalists.

Mwende, Muturi, and Njeru, 2019 also established that trade credit as well as equity financing, loans and other informal financing affected the functioning of small businesses in Kenya and concluded that no one source of finance can fully be tagged to influence performance or growth based on which they suggested the use of all four sources even as equity finances significantly predicted the performance of small businesses in Kenya. Another research by (Mwende, Muturi, & Njeru, 2019) asserted that a large population of small businesses relied on personal savings to finance their venture although that method of financing potentially would take longer for one to generate enough finance for his/her venture. According to a study conducted by Njagi, Kimani, and Kariuki (2017) on the equity financing performance of small and medium enterprises in Embu Town, Kenya, most small businesses prefer equity from friends and plough back profits over angel finance, which has yet to gain acceptance.

According to Quartey, Turkson, Abor & Iddrisu (2017), there are two main alternatives to formal small business financing in the ECOWAS sub-region: official schemes (where the government and/or other international bodies provide funding to small businesses) and informal sources of finance. Many small businesses in Sub-Saharan Africa (particularly in Nigeria and Ghana) have depended on informal sources of finance such as owner's savings, money lenders, friends and relatives, credit, and savings associations, very informal "Susu" collectors, and so on, even though official schemes were often established with the primary goal of increasing the flow of finance and credit to local small businesses.

However, their research confirmed that equity funding had a positive impact on small business performance because it provided long-term financing with low or no interest. Most importantly, their study revealed that the source of funding greatly affected the performance of small businesses and their liquidity and as such recommended that small businesses consider other equity options like angel investors even as financial institutions be pushed to educate and help create awareness on other financing options for the small businesses.
The choice between debt and equity financing by the owner/manager must be made early in a company's life cycle, according to Logenecker, Moore, Petty and Palich (2008), and can have long-term financial consequences. According to several reports, even the least control-averse owners/managers will prefer debt external financing to equity external financing to pursue growth, largely because debt causes less disruption and reduces the risk of losing control of the business (Daskalakis, Jarvis & Schizas, 2013; Luukkonen, Deschryvere & Bertoni, 2013).

1.1 Equity financing options

All financial resources supplied to businesses in exchange for a share of ownership are referred to as equity finance. Because the investee company provides no protection and the investment return is solely determined by the firm's success, equity investors share in the entrepreneurial risk. Investors may sell their shares in the company if there is a market for them, or they may receive a portion of the sale proceeds if the company is sold (OECD, 2009). In short, equity is any stake in a venture's ownership where an investor puts money into a business with no set repayment date, and the owner/manager was required to give up a portion of his or her ownership interest in exchange (Daskalakis et al., 2013).

Private equity and public equity are the two main types of equity financing. Private equity investors contribute funding to unlisted companies, whereas public equity investors focus on companies that are quoted on a stock exchange. Private equity financiers also provide advice or assistance to the owners or managers in the development of the company, whereas public equity investors are generally not involved in the operation of the company. There are other unofficial equity financing sources, such as family and friends. Indeed, even in nations with a well-developed equity capital market, such as the United States, the amount of money raised through these informal channels for start-up enterprises far outnumbers that raised through other avenues (Mac & Bhaird, 2010). Equity capital may be internally generated in the form of share capital or common stock, preferred stock, share premium, capital surpluses, as well as reserves in the financial statements reflecting shareholder's interest in a venture or externally from venture capital, corporate venture capital, angel investors, and in recent times, crowdfunding, and accelerators when it comes to innovation and development (Choi, 2014; Ehigiamusoe & Lean, 2017). Chadha and Sharma (2015) suggested that equity holding brought about a long-term commitment to the firm in anticipation of future growth.

According to Timmons (1994), capital needs differ depending on the stage of a venture's development. For example, young ventures may use capital from internal sources such as retained earnings and informal sources such as family and friends; however, as the venture expands, more capital would be needed, and they would need to look to external sources.

2.1.1 Internal equity sources:

Internal equity constructs used in this study were;

a. Bootstrapping

Bootstrap finance is a collection of cash management practices frequently cited as a solution to small businesses' financial problems. While financial bootstrapping tactics may provide a short-term lifeline for small businesses, empirical evidence on the characteristics that enable their adoption and whether they contribute to long-term business performance is mixed. Winborg and Landström (2001) defined bootstrapping as "the application of solutions for addressing resource needs without relying on long-term external financing from debt holders and/or new owners".

Grichnik, Brinckmann, Singh and Manigart (2014) and Ebben and Johnson (2006) divided bootstrapping approaches into six categories: owner financing methods, such as a loan from relatives or friends; third-party financing methods, such as a loan from a bank; fourth-party financing methods, such as a loan from a bank; accounts receivable minimization, such as using interest on late payments; joint utilization, such as sharing equipment with others; delaying payments, such as delaying payment to suppliers; capital invested in stocks minimization, such as offering discounts to customers who pay in cash; and subsidy finance, such as government subsidies. Krisztina Horvát (2018) had it that there were no crystal-clear arguments in the scholarly literature about how and under what conditions this link occurs. It might be claimed that different sorts of bootstrapping procedures have varied effects, as well as the type of performance metric.

In brief, bootstrapping is a form of self-financing set to reduce costs from operations and usually overlooked overheads which could take the form of no or low rent techniques like using one's garage as was the case of Hewlett-Package to avoid extra payments to the landlord (Marfo-Yiadom, 2017).

b. Personal financing

Personal financing has to do with existing cash resources which was the very first option an entrepreneur could use at start-up (Marfo-Yiadom, 2017). Gowthorpe (2003) stated that this form of equity could take the form of savings or windfalls. However, it was most appropriate to have about 50 percent of startup contribution by the entrepreneur to avoid having to go and borrow so much to finance the business properly as huge repayment cuts could drain the business' cashflow. Cornwall, Vang and Hartman (2004) stipulated that aside from the use of personal assets like one's savings account, investment, and retirement accounts, "sweat equity" which looks at the effort and time invested in the business which is not rewarded or compensated in monetary form as a form of personal investment.

c. Family members and friends

Family and friends support could be in the form of loans but care and clarity on the terms of the loan and repayment must be in place to save or preserve the relationship already existing that usually comes after personal savings, as the owner could contact friends and family who may be more patient than outsiders to invest or support the business (Marfo-Yiadom, 2017). Katz and Green (2007) posited that gifts, as well as common sense and clear communication, were essential, however, Cornwell, Vang and Hartman (2004) noted that entrepreneurs provide family, members, and friends with "full, accurate and honest information" concerning the business, and these should be made available before the funding to avoid possible conflicts to avoid the ruin of friendship or the tearing apart of families.

d. Retained Earnings, deferred income and cashflow

Retained Earnings (ploughed back profit), as well as donations by the board of directors, contributions from partners (either general partners who may be responsible for debts of the business or limited partners who may have limited liability over their personal assets against the debt of the business and associates) and deferred income and cashflow, may equally be classified as a form of internal equity (Marfo-Yiadom 2017). Puja Verma had it that, the backbone of the financial structure of the small businesses was Retained Earnings, which reflected the portion of divisible profits that were not given out as dividend.

2.1.2 External Equity Sources:

External equity constructs used in this study were;

a. Venture capital

One popular external equity source is Venture Capitalist financing, where professional investors who were often risk averters, very sensitive and choosy invest in well managed and highly prospective businesses with a high-level competitive advantage in their industry, providing such ventures with financial support. They are still deeply involved in the management of the ventures they participate in and have a strong desire to maximize the return on their investment, even though they are mainly interested in investing in a non-public company to eventually convert it into a public company by selling shares on the stock exchange market (Memba, 2011).

Venture Capitals fundamentally invest in young or startup firms which show or have a high growth potential in exchange for an equity stake (ownership) with funds often coming from a limited set of partners such as pension funds, insurance companies, etc. (Gompers & Lerner, 2006). The great thing about Venture Capitals remains that, aside from financial support, they offer their firms with a bundle of value-added activities such as support in the form of administrative, marketing, management, and strategy through coaching for its portfolio ventures (Groman & Sahlam, 1989; Lerner, 1995; Sahlman, 1990; Sapienza, 1992; Sørensen, 2007). They were also able to reduce information asymmetry in several ways through thorough screening processes before investing, contract signing to oversee and incentivize the ventures managers, and the close monitoring and supervision of the ventures after the investment stage (Lerner, 1995; Sahlman, 1990; Sørensen, 2007; Amit, Brander & Zott, 1998; Chan, 1983; Tyebjee & Bruno, 1984; Admati & Pfeiderer, 1994; Kaplan & Strömberg, 2003; Mitchell, Reid & Terry, 1997). Venture Capital in Ghana as reported by World Bank Group (2016) in its study to evaluate Ghana's private equity/venture capital (PE/VC) ecosystem and make recommendations for establishing strong private equity and venture capital environment that could offer risk financing for competitive small businesses had it that in Ghana, venture capital was first established in 1991. In response to the emergence of a new asset class, the Ghanaian government established a legislative regulatory framework for venture capital funds in the early 1990s, which was overseen by the Bank of Ghana. In late 1991, USAID and the Commonwealth Development Corporation co-sponsored a venture capital fund in Ghana. The Ghana Venture Capital Fund was established as a non-bank financing business to retain funds, as a separate management firm, Venture Fund Management Company, and to make investments.

b. Business angels

Another external equity choice is Business Angel investors, who are affluent individuals or friends of business owners or groups of individuals who provide financial support for small companies with strong growth and return expectations, typically investing less than $500, 000 and being a key component of the venture's management (Njagi et al., 2017). According to Harrison and Mason (2010) and Sohl (1999), Business Angels were gaining popularity when it came to equity financing for startup ventures. These were often very wealthy and highly experienced business folks, who may be put in between informal investors; founders, family and friends, and formal investors.

A key disparity between Business Angels and Venture Capitals can be the motivation, Venture Capitals tend to focus much on financial benefits, unlike Business Angels which tend to focus more on mentoring and coaching entrepreneurs and as such they placed much stress on the entrepreneur's characteristics when appraising them. The impact of Business Angels had been much felt in the last few years by forming networks and Business Angels putting themselves into online platforms for collective investment. Unfortunately, there were fewer empirical studies on Business Angels which were attributed to the paucity of financial data, resulting from high opaqueness of the market and the limited representativeness of survey-based samples (Harrison & Mason, 2010; Capizzi, 2015; Levratto, Tessier & Fonrounge, 2018) which has resulted in the reliance on anecdotal or case-based research when studying the performance of angel-backed ventures (Hellman, Schure & Vo, 2013; Mason, Botelho & Harrison, 2016).

c. Crowdfunding

Crowdfunding emerged recently as an innovative equity funding form which may be seen as a more democratic investment process as it allowed access to more potential investors who invest mostly in early-stage ventures in exchange for shares or ownership stakes in that venture. This remains great for entrepreneurial ventures who may not be able to access funds from banks and may not need larger pulls of funds by Venture Capitals or Business Angels (Tuomi & Harrison, 2017). Unfortunately, research on this alternative financing option remains limited because of recent developments and regulations of such markets and most importantly, data gathering challenges even as it was gaining popularity with relative research potentials (Ahlers, Cumming, Günther & Schweizer, 2015; Agrawal, Catalini, & Goldfarb, 2016; Allison, Davis, Short & Webb, 2015; Vulkan, Åstebro & Sierra, 2016).

According to the Europeans Union's Internal Market, Industry, Entrepreneurship and SMEs, Crowdfunding is a method of obtaining funding for ventures and companies. It allows fundraisers to raise funds from many people using online platforms. Crowdfunding is most often used by startups and rising enterprises as a means of raising funds. It is a novel way to raise money for new ventures, companies, or ideas. It can also be used to develop a following for your product or service. By using the power of the online community, you will also gain valuable market insights and access to potential customers. Websites that link fundraisers and the public are known as crowdfunding platforms. Financial pledges can be made and received through crowdfunding sites.

If a fundraising campaign is successful, crowdfunding platforms typically charge a fee to the fundraiser. Crowdfunding sites are supposed to have a stable and user-friendly service in exchange. Many sites have a one-size-fits-all funding model. This means you get the money if you hit your goal; if you do not, you get your money back-no bad feelings or financial penalties. Crowdfunding comes in a variety of forms, which are described below. Profitable small companies and startups mostly use three types of crowdfunding: peer-to-peer, equity, and rewards crowdfunding.

d. Accelerators

The term "accelerators" did not exist until 2005 when Paul Graham launched Y Combinator, the first accelerator in the United States. The Y Combinator has a lot in common with traditional incubators, but it also has some distinct characteristics (Miller & Bound, 2011). Many accelerators are related to business "angels" and are often referred to as "seed accelerators," reflecting an emphasis on helping ventures become "investor-ready" (Hoffman & Radojevich Kelley, 2012). Nonetheless, according to Lall, Bowles and Baird (2013), accelerators can help projects at “any level of development”.

Hochberg and Kamath (2012) used a six-factor study to ‘score' accelerators in the United States. By extension, their rating of accelerators based on these variables implies that they are efficiency indicators. Professional financial activity, qualified exit, credibility with venture capitalists, alumni network, percentage of equity taken by the accelerator in return for services, and a sum of money given to entrepreneurs as a stipend were among the factors they consider. Nonetheless, according to Lall et al (2013), accelerator efficiency is often calculated in terms of ‘success' and ‘survival.' Accelerator data suggests that this is right, as programs often publish "success rates" in terms of post-accelerator investment – and "survival rates" in terms of percentages of participating projects still in business.

Lall et al (2013, p 106) stipulated that in many communities, business accelerators and incubators play an important role not only in the growth of small businesses but also in the development of human resources and human capital. Business accelerators and incubators help early-stage entrepreneurs by offering “business development support (e.g., consultancy, technology assistance); infrastructure support (e.g., access to office space, shared back-office services); network support (e.g., access to potential clients, investors, mentors); and financial support”.

Accelerators are significant contributors to the success rates of new businesses by providing entrepreneurs with support, mentoring, and, most importantly, industry connections during their boot camps (Dempwolf & D'Ippolito, 2014). As such, business accelerators provide training, mentoring, networking, and investment opportunities to help young entrepreneurs gain access to mentorship, investors, and other resources that will help them grow into stable, self-sustaining businesses (Hoffman & Radojevich-Kelley, 2012). As a result, business accelerators are companies that provide resources to start-up businesses so that they can emerge and thrive in their society. According to Ojo (2009), encouraging entrepreneurial development schemes is one of the responses to the challenges of development, particularly in emerging countries.

2. *Small business growth measurement*

The phenomenon of small business growth has been extensively studied in entrepreneurship. One explanation is that most companies do not expand over time (McKelvie & Wiklund, 2010; Davidsson et al., 2010), and small enterprises do not grow (Doern, 2009). Brush, Ceru, and Blackburn (2009) say that some companies do not want to expand, while others tend to grow slowly, even though they were just as successful as those who grow quickly. Except for the so-called "gazelles" (Julien, 2002), or young enterprises with very rapid growth, most new enterprises do not advance beyond the stage where they started their activities (Headd & Kirchhoff, 2009; Sims & Regan, 2006).

Growth is a product of a mixture of firm-specific capital, skills, and routines resulting in an organizational outcome (Nelson & Winter, 1982). The word "business growth" is used to describe several things, including an increase in overall sales volume, increased production capacity, increased jobs, increased production volume, and increased raw material and power usage. These growth indicators lack a consistent definition of growth. To characterize and measure business growth, absolute or relative changes in sales, properties, employment, productivity, profits, and profit margins were commonly used.

Achtenhagen, Naldi and Melin (2010) reviewed studies on growth published between 1997 and 2008 and found 56 publications, most of which endeavoured to understand why companies grow (growth as a dependent variable); however, other articles dealt with growth strategies or on growth intentions and desires. According to Delmar, Davidson, and Gartner (2003), various researchers use growth indicators including assets, market share, physical output, and profits to evaluate business growth. Despite this, they claimed that these metrics were rarely used as revenue and job indicators due to their limited applicability. As a result, market share and physical production differed across sectors, making comparisons difficult. Shifts in industrial capital intensity over time affected the valuation of total assets; and, finally, profits were suitable for calculating size over time.

Delmar, Davidsson and Gartner (2003) also reported that sales and jobs were two important indicators in determining firm growth. Employment was often used because it was relatively easy to access and quantify, as well as because policymakers are interested in it (Barkham, Hardy & Startup, 1996). While sales were susceptible to inflation and exchange rates, they were a common way to measure firm growth. Furthermore, comparing revenue figures in various industries can be difficult. Therefore, Delmar et al. (2003) concluded that researchers can use a variety of growth metrics when assessing firm growth, and firms with a growth target have higher debt levels than businesses with a lower growth tendency.

Regardless, the importance of small businesses in the growth and development of any economy on the planet cannot be overstated. Nonetheless, in Ghana, small business growth was seriously hampered by a shortage of financial capital (AGI, 2013; Nkuah, Tanyeh & Asante, 2013). Furthermore, small businesses in Ghana have been rewarded for pursuing their growth agenda by both internal and external financing sources, especially after the Financial Sector Adjustment Programme was introduced (Osei, 2013). However, the literature on these financing sources has been inconsistent in terms of their effect on small business development, with some studies reporting mixed and often contradictory results. Furthermore, recent studies in Ghana have thoroughly reviewed the literature on finance and small business growth, as well as the relations between the two (Abor & Quartey, 2010; Osei, 2013). However, it is worth noting that only a few studies have been conducted to determine the financial contribution to small business growth.

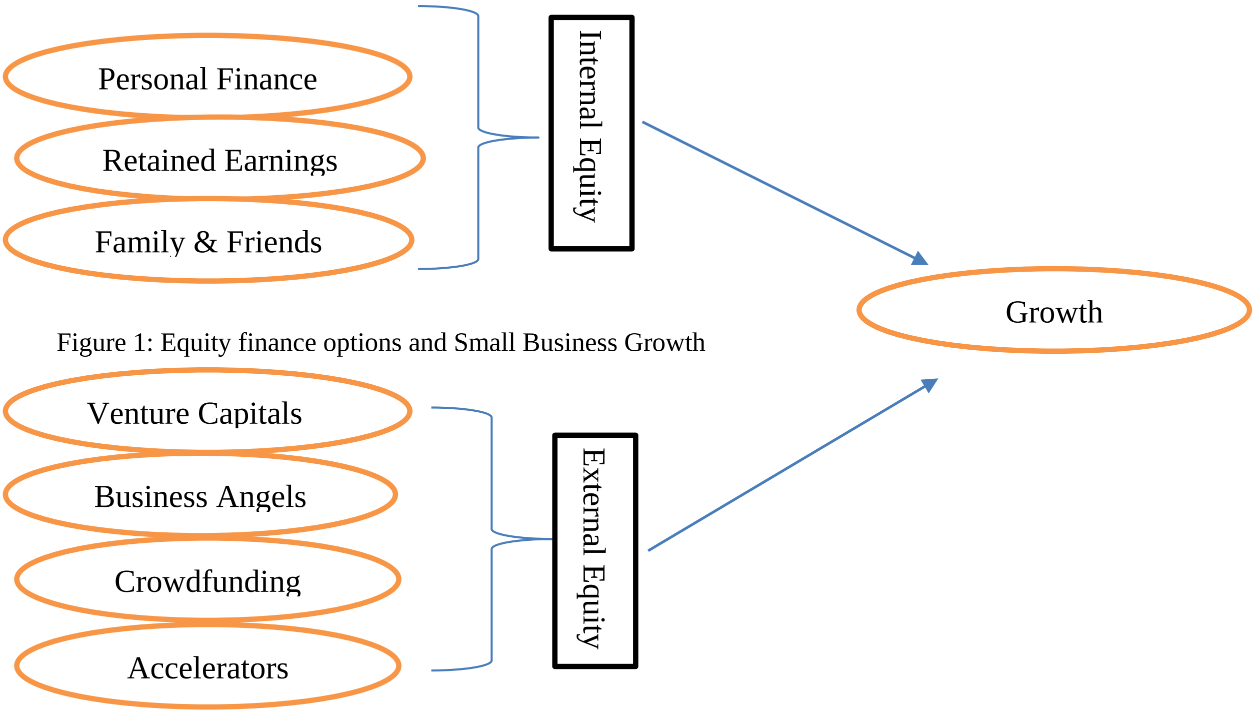

Figure 1: Equity finance options and Small Business Growth

The study used an explanatory research design. The population of the study was 257 small businesses in the Accra Metropolis registered with the Ghana Enterprise Agency. The statistical tools for analysis were the Statistical Product for Service Solution (SPSS version 24) and Smart PLS (version 3). The study's population was registered small businesses in the Greater Accra Region's Accra Metropolis, with a speculated total of 5,177 registered with the GEA (formerly NBSSI) as of February 2021. For this study, all the 257 people were polled. The targeted respondents were small business owners/managers because they possessed critical knowledge about the company's growth and financial resources as a majority of employees did not have access to such management information. Both primary and secondary data sources were used for the study. The data was collected through the use of questionnaire. Data collected from the survey design were analysed quantitatively using both descriptive and inferential statistics. The technique used to test the hypotheses is the structural equation modelling (SEM) specifically the Partial Least Square (PLS).

4. Characteristics of Small Businesses in the Accra Metropolis

The results of the field survey showed that sole proprietorship was the major registered form of business owners representing about 76 percent of the registered business respondents. About 71 percent of the businesses had one to five employees, with family members constituting about 60 percent of the employees. Regarding the number of years that the respondent had been operating their businesses 54 percent indicated that they had been operating for less than five years, 39 percent had been operating for five to ten years even as seven percent had been operating for more than 10 years. The results of the field survey were in line with the Ministry of Trade and Industry (2019) which had it that small businesses were predominantly registered as Sole Proprietorships, which make up more than half of small businesses per their information from the Registrar General. Service-related activities were concentrated in urban and peri-urban areas, whereas manufacturing was concentrated in rural and urban areas. This was equally emphasized in the Ghana banking survey (2013), that in urban areas like Accra, small businesses were mostly found in the service sector, specifically hotels, restaurants, transportation and storage, industry, and real estate.

For the characteristics of owner/managers, out of 218 respondents, 114 were females (representing 52 percent of total responses). Also, about 34 percent of respondents (73 out of 218) were aged between 40 and 49

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with the others falling between 30 to 39 (about 32%), 20 to 29 (23%), and 50 to 59 (11%), with less than a percentage above 59 years. In addition to the above characteristics, the number of respondents who were married accounted for 53 percent of the total respondents. With regards to the highest level of education, about 45 percent had received tertiary education, however, seven out of the 218 respondents had received no education. Also, about 61 percent of respondents had no formal business or financial education and out of this number, 102 respondents had not sought any financial or business training to fill in their business/financial education deficit. Finally, 61 percent of respondents had below five years of experience before starting or running their current business.

5. Financing Options of Small Businesses

In comparing the financing options of small businesses used in the study, it was noticeable that at startup, personal savings were heavily used representing 51 percent of startup finance of respondents, followed by family and friends (about 20%) and then bank loan/overdraft (10%). This suggested that equity makes up 77 percent of small business start-ups. The respondents were asked about their current financing options. Personal saving accounted for 41 percent, whereas, retained earnings/plough back profit and family and friends constituted 33 percent and 19 percent respectively. Furthermore, 65 percent of respondents had more than 50 percent of total finance as equity. Out of the 40 percent of respondents who had never sought additional funding, they perceived that cost of capital was high (about 26%), the seeking process was complicated (24%), time to raise capital was long (about 24%) and wanted to keep their business small (about 22%).

When asked if respondent businesses had ever sought additional funds, 60 percent said yes. The additional funds sought were from banks (about 26%), and family and friends (about 22%). In addition, respondents mentioned that the reasons for seeking additional finance were to increase the level of current assets (about 29%), prevent liquidity problems (26%) and purchase non-current (fixed) assets (22%). Some problems encountered in seeking additional funds included high-interest rates (15%), high fees and charges (12%), and too much paperwork requirement (11%). In addition, reasons such as lack of collateral and not meeting requirement (29%), poor quality financial information (about 15%), and being a new business start-up (about 12%) was noted for rejected additional funding applications by respondents, although about 15 percent were given no reasons for their rejection.

6.1 Model Reliability and Validity

Internal consistency reliability (IR) was measured by Cronbach's alpha (CA) and rho A using the rule of thumb with an indicator value of > 0.7 (Hair, Sarstedt, Matthews & Ringle, 2016; Wang & Wang, 2019). The results of the study in Table 10 showed that all indicators used met the >0.7 thresholds which in simple terms meant that the studied variables were reliable in the model used. Also, the rho A (ϱ) values for all the indicators used were all greater than 0.70 which also met the threshold of >0.70. The Composite Reliability values of all indicators equally met the >0.70 thresholds which meant that when the indicators are put together, they adequately measure the construct under study (Nawanir, Lim, Othman & Adeleke, 2018). The Average Variance Extracted (AVE) analysis which measured convergent validity was all above the minimum threshold of 0.5 for a construct to validly signify convergent validity (Fornell & Larcker, 1981; Hilkenmeier, Bohndick, Bohndick & Hilkenmeier, 2020).

Table 1: Construct Reliability and Validity

Construct	Cronbach's Alpha (α)	rho_A (ϱ)	Composite Reliability (CR)	Average Variance Extracted (AVE)
Acceleration	0.936	0.941	0.951	0.797
Bootstrapping	0.964	0.965	0.970	0.801
Business Angel	0.891	0.891	0.932	0.821
Crowdfunding	0.940	0.941	0.961	0.893
External Equity	0.953	0.955	0.959	0.607
Family and Friends	0.947	0.949	0.958	0.792
Growth	0.929	0.932	0.942	0.700
Internal Growth	0.970	0.971	0.973	0.597
Personal Financing	0.930	0.931	0.943	0.705
Retained Earnings	0.892	0.893	0.933	0.824
Venture Capital	0.889	0.892	0.923	0.751

Source: Field Survey (2021)

6.3 Discriminant validity

To test for discriminant validity, Fornell and Larcker (1981) criterion and the Heterotrait-Monotrait (HTMT) ratio were used in the study analysis to see to it that the latent variables were all independent of each other which is necessary for addressing collinearity (Cheung & Wang, 2017). The Fornell and Larcker (1981) criterion had it that, the construct should share more variance with its indicator than any other construct, therefore, each construct's AVE must be greater than the highest squared correlation (diagonal figures in bold) with any other construct.

From Table 2, the square of AVEs (diagonal figures in bold) were all greater than the correlation between constructs (off-diagonal constructs) except for retained earnings which had it is diagonal (0.908) greater than its off-diagonal (0.913). For Heterotrait-Monotrait (HTMT) ratio, the threshold is <0.85 per Ab Hamid, Sami and Sidek (2017). Just as Fornell and Larcker (1981) predicted, all indicators except for retained earnings which had a ratio of 1.003 did not meet the criteria which signify potential collinearity issues of retained earnings construct used in the study.

Table 2: Fornell-Larcker Criterion

Construct	Accel- eration	Boot-strap	Business Angel	Crowd-funding	External Equity	Family and Friends	Growth	Internal Growth	Personal Financing	Retained Earnings	Venture Capital
Acceleration	**0.893**										
Bootstrapping	0.478	**0.895**									
Business Angel	0.659	0.462	**0.906**								
Crowdfunding	0.631	0.471	0.555	**0.945**							
External Equity	0.905	0.556	0.813	0.822	**0.779**						
Family and Friends	0.327	0.580	0.469	0.486	0.462	**0.890**					
Growth	0.310	0.441	0.374	0.386	0.402	0.374	**0.836**				
Internal Growth	0.456	0.892	0.485	0.555	0.581	0.802	0.504	**0.773**			
Personal Financing	0.379	0.709	0.368	0.539	0.514	0.671	0.495	0.920	**0.840**		
Retained Earnings	0.382	0.746	0.386	0.443	0.481	0.611	0.461	0.905	0.913	**0.908**	
Venture Capital	0.727	0.513	0.667	0.698	0.898	0.372	0.345	0.537	0.512	0.463	**0.867**

Source: Field Survey (2021)

Table 3: Heterotrait-Monotrait Ratio (HTMT)

Construct	Accel-eration	Boot- strap	Business Angel	Crowd-funding	External Equity	Family and Friends	Growth	Internal Growth	Personal Financing	Retained Earnings	Venture Capital
Acceleration											
Bootstrapping	**0.499**										
Business Angel	0.719	**0.501**									
Crowdfunding	0.667	0.492	**0.605**								
External Equity	0.955	0.580	0.886	**0.864**							
Family and Friends	0.343	0.603	0.510	0.511	**0.483**						
Growth	0.331	0.456	0.406	0.408	0.422	**0.394**					
Internal Growth	0.475	0.917	0.526	0.582	0.604	0.847	**0.523**				

Personal Financing	0.409	0.750	0.407	0.576	0.548	0.710	0.529	**0.966**		
Retained Earnings	0.418	0.805	0.435	0.483	0.523	0.661	0.501	0.967	**1.003**	
Venture Capital	0.792	0.556	0.748	0.762	0.975	0.400	0.373	0.578	0.568	**0.523**

Source: Field Survey (2021)

6.4 Collinearity statistics

Variance Inflation Factor (VIF) values of 5 and above are indicative of pathological collinearity problems, according to Ringle, Wende & Becker (2015), and values greater than 3.3 may also indicate that the model is contaminated by common method bias (Kock, 2013). The Inner VIF values for both Internal and External equity on Growth constructs were less than 3.3 indicating the possible absence of lateral multicollinearity. For constructs measuring external equity (acceleration, business angel, venture capital and crowdfunding), all were also below 3.3 which is a good indicator of the potential absence of lateral multicollinearity. For internal equity constructs, bootstrapping and family and friends had VIF values below 3.3 but personal financing, and retained earnings had values above 5 (6.859; 6.868 respectively). However, Ahmad, Adnan, and Adnan (2006) and Pallant and Manuel (2007) suggest an ultimate threshold of <10 to show independent variables multicollinearity which these constructs did meet.

Hair et al. (2019) proposed that Q^2 values for an endogenous component should be greater than zero to reflect the structural model's prediction accuracy. Q^2 values greater than 0, 0.25, and 0.5, respectively, indicate small, medium, and high predictive importance. Q^2 values were 0.204 and 0.091 for external and internal equity on growth respectively which meant that internal equity had small predictive importance to growth, whereas external equity had medium predictive importance to growth. Also, the effect size values(f^2) in a model further indicate how important a predictor is in explaining a dependent construct (Hair et al., 2019). Small, moderate, and large f^2 effect sizes are indicated by values greater than 0.02, 0.15, and 0.35, respectively (Cohen, 1988). Internal equity had a moderate effect (f^2 = 0.152) on growth, and external equity had a small (f^2 =0.025) effect on growth.

T-statistic (t-stat) values should be 2.097 > 1.96, with t-stat values greater than 1.96 correlating to p-values less than 0.05, and vice versa. Therefore, when the t-stat is less than 1.96, the null hypothesis (H_0) is rejected, and when the t-stat is more than 1.96, the H_0 is not rejected (Hair et al. 2020). External equity had a t-stat of 2.028 with a p-value of 0.043 whereas internal equity had a t-stat of 5.667 with p-value of 0.000, as such the null hypotheses for the study, H_1 and H_2, are not rejected.

Table 4: Co-efficient, Effects Size and Predictive Relevance

Constructs	Beta	F^2	Q^2	T Statistics (|O/STDEV|)	P Values
External Equity -> Growth	0.164	0.025	0.204	2.028	0.043
Internal Growth -> Growth	0.409	0.152	0.091	5.667	0.000

Source: Field Survey (2021)

Findings from the study showed that personal savings (51%), support from family and friends (20%) and bank loan/overdraft (10%) were the main financing options used at startup. The study also revealed that after start-up, the major financing options being used by the businesses surveyed included personal saving (41%), retained earnings (33%) and support from family and friends (19%). This could be attributed to moral hazard and information asymmetry, as start-up small businesses have been compelled to rely on personal resources while seeking alternate sources of finance for expansion (Abdulaziz & Andrew, 2013).

Furthermore, the sampled businesses preferred internal equity (82%) over external equity (18%) although equity constituted 77 percent of the total finance at start-up and 65 percent of the total current finance of the businesses. This confirms the assertion by Bell and Vos (2009) that small businesses prefer internal equity to maintain authority, independence, and control. Caroline and Willy (2015) also shared the same view when they noted that owners/managers preserve control of their enterprises by employing internal equity as a source of funding that has no new financial obligations. From the above, there exists direct ownership with internal equity, and businesses that use internal equity finance can accelerate their growth.

The regression results from the Partial Least Square (PLS) carried out showed that internal equity significantly and positively influences the growth of small businesses. This finding was supported by prior findings by Caroline and Willy (2015) and Reynolds (2011) that the funding gap faced by small businesses could be closed by tapping internal equity, which has a significant impact on their growth. They noted that owners/managers relied on their personal funds as well as the financial assistance of individuals close to them, such as family members or friends.

In a similar study by Njagi et. al. (2017) on equity financing and financial performance of small and medium enterprises in Embu Town, Kenya, the study revealed that small business owners/managers received donations from friends and employed plough-back mechanisms to support their operations. They also acknowledged that the businesses' financial results were impacted by retained profits, which were utilized to support long-term market expansion and angel investors, on the other hand, were not considered a viable option for equity funding. In addition, Ayyagari, Demirgüç-Kunt, and Maksimovic (2010) found that internal sources of finance were more capable of fostering small business growth than external sources and that they may act as angel investors in the financing and formation of fast-growing start-ups in developing nations.

The regression results from the Partial Least Square (PLS) carried out to analyze the effect of external equity financing options on the growth of small businesses, showed that external equity significantly and positively does influence the growth of small businesses. This finding was in line with OECD (2006) and Daskalakis et al. (2013) that small businesses unlike huge corporations, face significant challenges in obtaining external finance from banks and other financial organizations and that external sources of finance were typically delayed until internal sources of finance were exhausted. This is typical of the pecking order theory since they tend to seek funding from internal sources first, before resorting to debt and then external equity (Kumar & Rao, 2015). Unfortunately, small businesses in Ghana and Africa are yet to fully embrace and exploit external equity-like crowdfunding, accelerators, venture capitals and business angels. Njagi et. al. (2017) equally admonished small businesses to embrace external equity providers like angel investors.

III. Conclusions

The study concluded that internal equity is preferred to external equity by small businesses in the Accra Metropolis. The preference for internal equity especially in the form of personal savings and family and friends stems from the belief that they are generally deemed less risky, and flexible, and come with no ownership alterations. Internal equity significantly and positively affects small business growth even though options like bootstrapping and use of retained earnings are being underutilized. This is because internal equity options are predominantly personal savings and support from family and friends.

External equity has a significant effect on small business growth. This could be linked to the fact that sole proprietorships make up about 78 percent of small business ownership and broadly seek to hold on to control and management of their businesses. However, external equity options like crowdfunding, accelerators, business angels, and venture capital are yet to be heavily embraced.

IV. Recommendations

The study recommends that external equity options should be encouraged as it significantly fosters small business growth. Furthermore, small businesses should take advantage of external equity financing options like accelerators, angel investors, crowdfunding and venture capitals, as they not only provide capital or funds but also provide advisory services as well as administrative support, networking, and bookkeeping skills which help professionalize the small business. By so doing, small businesses become attractive to capital providers both internal and external.

Government can foster small business growth by creating an enabling environment by fast-tracking licensing and permitting more equity providers especially private providers of equity. This would augment the currently limited government equity initiatives like the Ghana Venture Capital Fund (GVCF) and the Ghana Angels Investors Network (GAIN). Also, equity-based patient capital should be provided by the government for early staged small businesses. Finally, small business owners/managers must be determined and consistently plough back profits and save on a regular basis to expand their businesses.

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