

**ADVANCING THE FINANCIAL PERFORMANCE OF SMALL BUSINESSES
IN GHANA: DOES MICROFINANCING MATTER?**

KNUST

By

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DECLARATION

I hereby declare that this submission is the result of my own work towards the Masters of Science (Accounting and Finance Option) programme and that, to the best of my knowledge, this study contains no materials previously published by no person or submitted for the award of any other degree of the University, except where acknowledgment has been duly made in the text.

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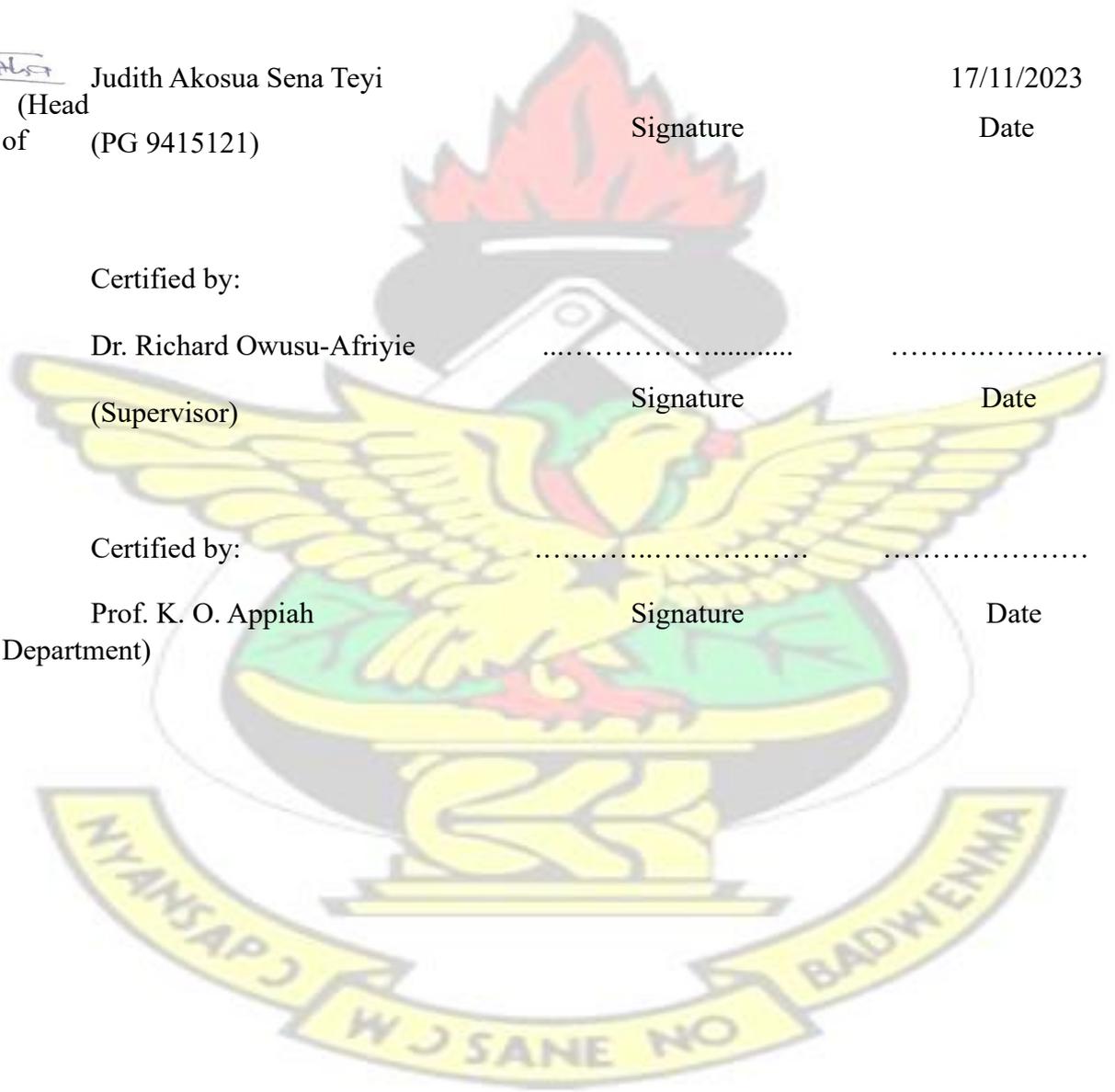
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Department)

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Date



DEDICATION

I dedicate this project work to my husband Mr. Daniel Nii Djaba Buxton and my Mother Euphemia Esi Tanson, Staff of Visionfund Ghana Microcredit Limited, family and friends, the school of business at the Kwame Nkrumah University of Science and Technology (KNUST) for being a strong pillar throughout my MSC program. Their love and support made this project possible. I am deeply humbled by the knowledge acquired and support accorded to me during my studies at the university.



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ABSTRACT

The study examines the effect of microfinance products or services on the performance of small businesses in Ghana. Specifically, the study uses quantitative explanatory research to examine the nexus of MFI products or services (microcredit, savings, education, and insurance) including control variables such as gender, managerial competencies, owner's age, nature of business or industry, business size) on the performance of small businesses in Ghana. The study uses descriptive statistics (mean, standard deviation, minimum, and maximum scores) and inferential statistics such as Pearson Correlation Analysis, and multiple linear regression on a sample size of 225 responses to help achieve the study's objectives. The study finds that microloans affect sales growth (or levels) but not profit levels. Also, micro-savings affect the profit levels but not the sales growth and the insurance from MFIs affects the profitability of small businesses in Accra, however, it has no significant influence on the sales growth of businesses. Education provided by MFIs, on the other hand, increases both the sales and profit levels of small businesses in Ghana. The study recommends that for the profit levels of small businesses to be increased, nascent and prospective entrepreneurs need to focus on MFI products or services such as savings, insurance, and education (seminars or training from MFIs). Also, MFIs should increase the insurance packages to business owners to trust and have some assurance of cash in case of any operative or natural disaster. Moreover, MFIs should continue to offer education to small businesses consistently geared towards the performance of small businesses. Finally, MFIs and government agencies such as Microfinance and Small Loans Centre and National Board for Small Scale Industries should increase loan facilities including the duration of the loan, and the loan repayment should be spread over long periods.

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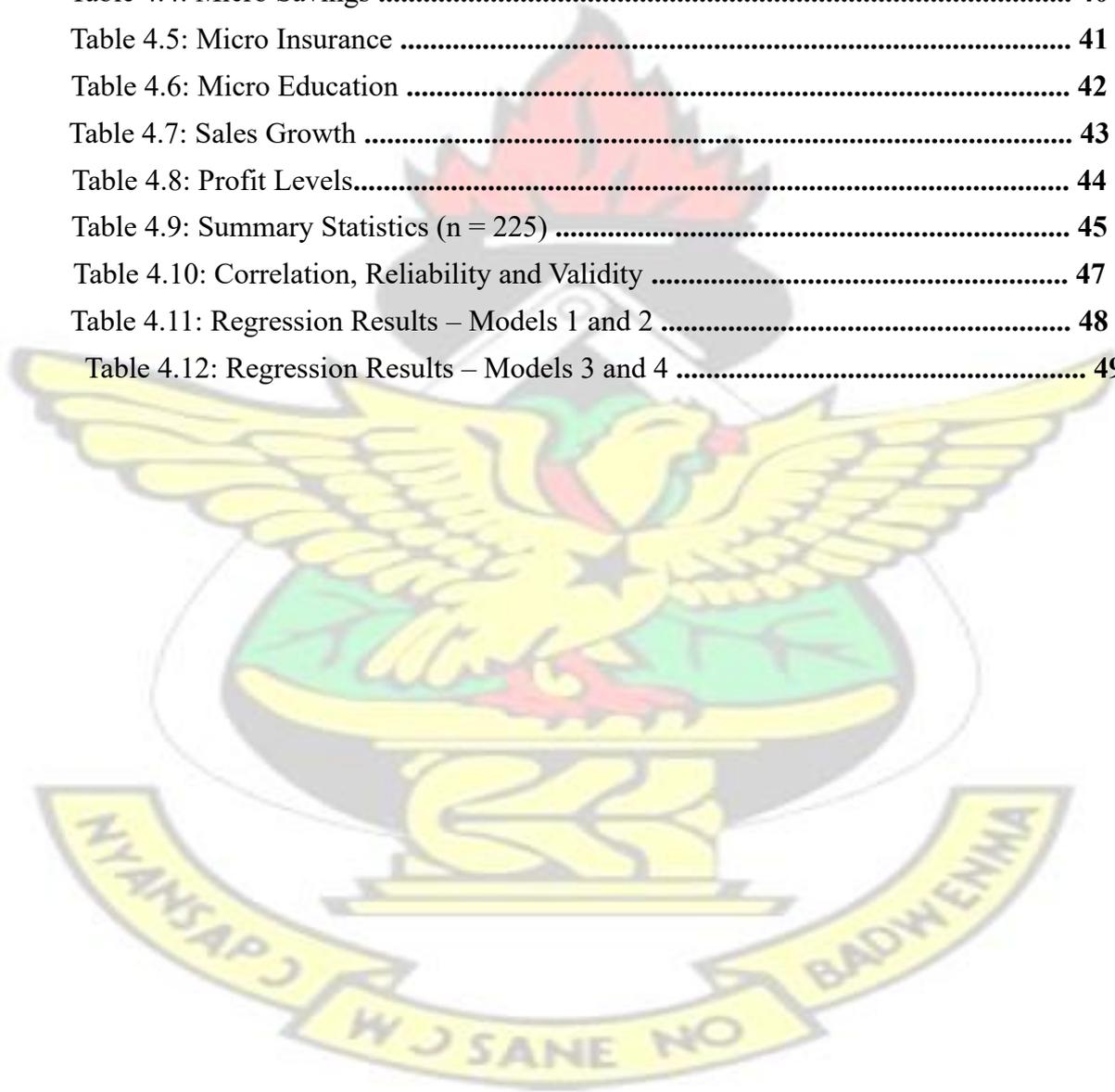
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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small businesses in emerging and advanced economies contribute to social and economic development (Domeher, Musah, and Poku, 2017). They contribute to the economic development of most developing countries (Domeher et al., 2017; Quartey and Asamoah, 2017). Small businesses are the major factor in terms of a country's development and contribute to the production, employment, and income equality of every country (Eddleston and Mulki, 2020). Small businesses in every country help to stimulate economic stability in terms of the reduction of poverty and foreign direct investment or grants (Abor and Quartey, 2010).

Also, small business operations increase jobs, and the huge taxes paid by them generate revenue for governments (Sadiku-Dushi, Dana and Ramadani, 2019). According to Abor and Quartey (2010), the revenues generated by governments through taxes they pay are used to undertake developmental projects in developing and advanced economies. Therefore, the growth and sustainability of these businesses are important and the accessibility to finance is significant to their performance (Gyimah, Appiah and Lussier, 2020). Small businesses can be defined as an enterprise or establishments that have a total staff of 9 individuals and the total value of fixed assets (non-current assets) is less than GH¢ 10,000 (Gyimah et al., 2020).

The contributions of small businesses in the manufacturing sector in Ghana are about

85% (Abor and Quartey, 2010). According to Gyimah et al. (2020), in developing economies like Ghana, about 92% of businesses are Small businesses and their contribution to GDP and job creation are 70% and 80% respectively. Therefore, for any robust economy, the government mostly concentrate on small businesses due it significant contributions such as unemployment reduction, poverty reduction, social cohesion and economic growth and development (Abor and Quartey, 2010; Domeher et al., 2017; Quartey and Asamoah, 2017; Gyimah et al., 2020).

Surprisingly, these important businesses in every economy are unable to access funds from financial institutions compared with larger businesses. In other words, though small businesses contributed massively to the growth and development of every economy, access to financial support remains a major obstacle (Domeher et al., 2017; Quartey and Asamoah, 2017). The main reason is that most small firms do not have security conditions requested by commercial financial institutions as compared to listed or large businesses and this constrains their sustainability, productivity, performance or growth (Addai, 2017).

Since the majority of small businesses are unable to access financial support from formal financial institutions, they then rely on non-formal deposited financial firms such as microfinance institutions (MFIs) that provide them credit but at a high-interest rates, and other money lenders even worsen the conditions of them (Sadiku-Dushiet al., 2019). Nevertheless, though MFIs provides high-interest rate on loans or credit, their product or services such as insurance, savings, and financial literacy (education) in the form of working capital management, records keeping in terms of savings, repayment schedule and inventory management play a major role in the sustainability, productivity,

or performance of small businesses (Sarpong-Danquah, Gyimah, Poku and Osei-Poku, 2018).

According to Agnese, Rizzo and Vento (2019), the MFI's products or services reduce the moral hazard of the small businesses. Also, most small businesses' creditability is improved which helps to access higher microfinance loans (Parvin, Hossain, Mohiuddin and Cao, 2020). The financial and non-financial services provided by these MFIs help them to grow their businesses at a profit which expands their business and creates jobs in Ghana (Gyimah et al., 2020). Therefore, MFIs contribute significantly to the performance of small businesses, and it is important to investigate whether MFIs products or services affect the performance of small businesses in Ghana, where the majority of small businesses depend on MFIs for survival (Addai, 2017).

1.2 Problem Statement

The performance of small businesses can be achieved through the financial assistance provided by microfinance institutions (Parvin et al., 2020). Microfinance services in terms of the provision of financial assistance to low-income as seen as an antidote to the reduction of poverty (Agnese et al., 2020). Prior researchers in Ghana have given little attention to assessing the impact of multiple MFI services or products on small firms' performance. Existing literature findings on the nexus between MFIs and small firms' performance in developing and developed economies are uncertain (Appiah, Turkson and Hagan, 2009; Gyimah and Boachie, 2018). Empirical evidence on the nature, magnitude and balance of microfinance's impact on small businesses is still scarce and inconclusive (Addai, 2017). Therefore, it is very important to examine the

microfinance-small businesses' performance nexus in a developing country (Ghana), where most small businesses depend on MFIs for survival. Extant works in Ghana normally focus on the nexus of MFI loans or credits and small firms' performance (See Domeher et al., 2017; Boateng and Poku, 2019), neglecting other services and/or products provided by MFIs.

Most of the existing literature in Ghana that has examined the nexus between MFIs and small businesses' performance reports a positive relationship. For example, Fauster's (2014) study on the impact of MFI's products on the performance of businesses reported a positive relationship between microfinance and small businesses' performance in terms of sales revenue. Also, a study by Alhassan et al. (2016); Gyimah and Boachie (2018) and Owusu-Dankwa and Adoley (2014) argued that MFI products or services strengthen the small firm's performance. Quaye's (2011) study also investigated the effect of microloans (or credit) on the performance of small businesses and reported a direct effect between microloans and small firm's performance. According to Quaye (2011), access to credit increases their working capital and boosts their productivity, performance or growth, and expansion.

The above number of researchers in Ghana only focused on the nexus between access to micro-loans or credits and the performance of small businesses. To the best of the researcher's knowledge, there is little or no research that has considered multiple MFI products or services (including control variables such as gender, managerial competencies, owner's age, nature of business or industry, and business size) to ascertain its effects on small business's performance in Ghana, where 80% businesses depend on MFI for growth (Addai, 2017). This study extends a previous study focusing

on the nexus of the combination of microfinance products (including control variables) and the performance of small businesses in Ghana. The study fills the gaps to investigate the effects of MFI's education, insurance, savings, loans, and business and owner's characteristics (gender, managerial competencies, age of the owner, nature of business or industry, and business size) on the performance of small businesses in Ghana.

1.3 Research Objectives

The main objective of the study is to assess the effect of MFIs services or products on small firm's performance in Ghana. The specific Objectives are as follows; this study seeks

1. To examine whether microloans affect the performance of small businesses in Ghana.
2. To explore the effect of micro-savings on the performance of small businesses in Ghana.
3. To find out whether micro insurance affects the performance of small businesses in Ghana.
4. To assess the impact of microfinance education on the performance of small businesses in Ghana.

1.4 Research Questions

The research questions are as follows:

1. Do micro-loans affect the performance of small businesses in Ghana?
2. What is the effect of micro-savings on the performance of small businesses in Ghana?

3. Does micro insurance affect the performance of small businesses in Ghana?
4. What is the effect of micro-education on the performance of small businesses in Ghana?

1.5 Significance of the Study

This study has practical and theoretical contributions. Practically, the study would assist microfinance institutions to evaluate the products or services that massively impact small firms' performance to improve them. The study findings can help microfinance firms by evaluating the effectiveness of the prevailing services or developing new ones that can enhance the firm's performance. Also, the study would aid as a benchmark to utilize existing scarce resources that would contribute to the sustainability and performance of small businesses.

Moreover, government agencies such as the National Board for Small Scale Industries and Microfinance and Small Loans Centre would use the study's findings to educate business owners or entrepreneurs on the MFIs factors that affect their performance. In addition, prospective and existing entrepreneurs or small business owners would use the study's findings in making investment decisions. Theoretically, the study would to a larger extent contribute to the knowledge of both academia and professional practices on the nexus of MFIs and small business performance in emerging economies. Other scholars can use the study's findings or evidence report as extant literature to extend future research works. This work would serve as a reference point for researchers who would like to carry out similar research in this perspective.

1.6 Scope of the Study

The research centres on MFIs products and their effect on the small firm's performance in Ghana, where almost all businesses in that region relied on MFIs for survival. The study focuses on the four major financial or non-financial products or services (namely loans, savings, insurance, and education) provided by MFIs. The study also extends the determinants by controlling other key variables in extant literature such as gender, managerial competencies, owner's age, industry, and business size.

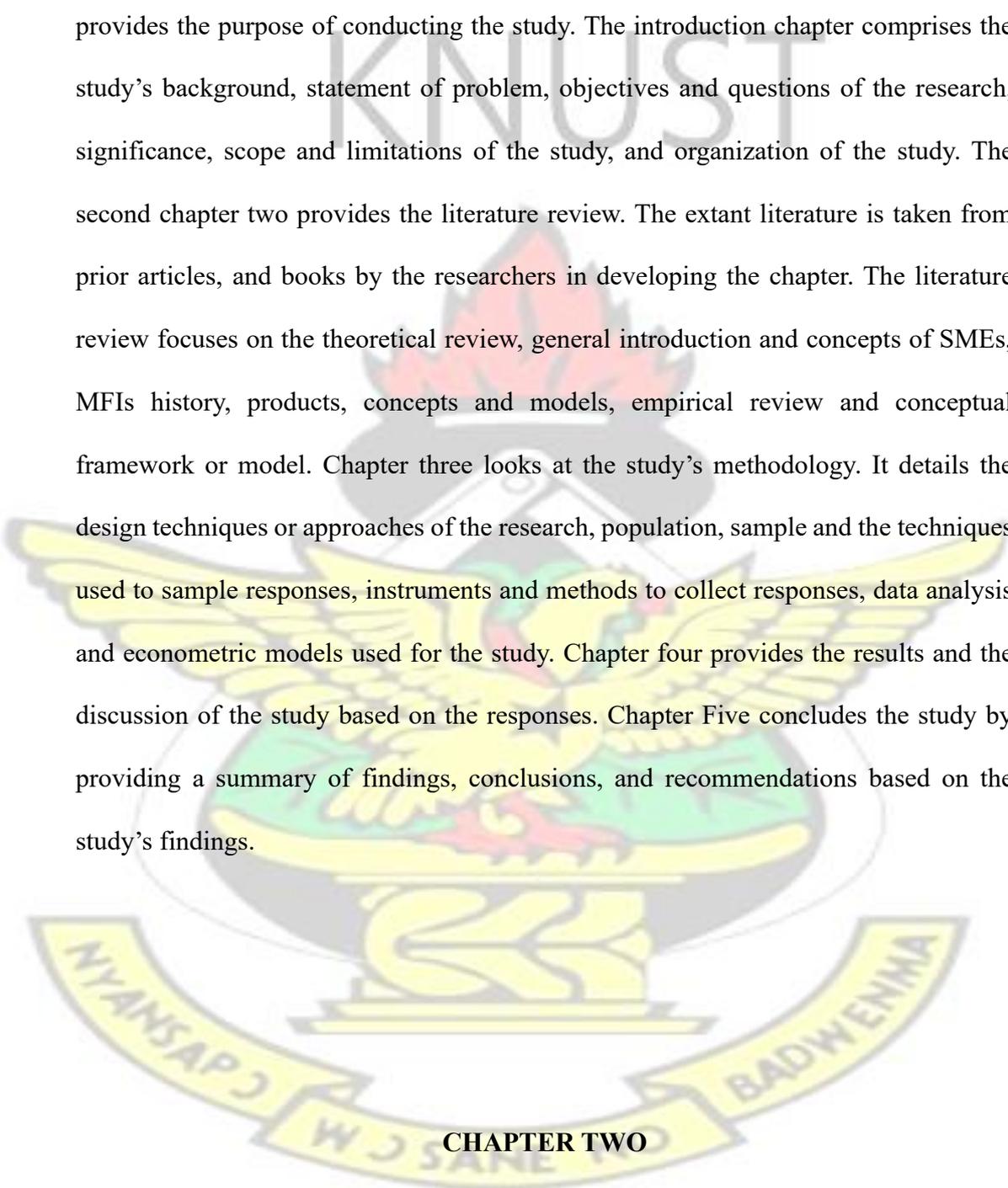
1.7 Limitations of the Study

One of the major constraints of the research is that the work only considered one region in a developing country. Henceforth, the generalization of the study's findings may be problematic, however, since small business issues or perspectives in one region in Ghana are somehow the same, the results can be applicable across the country. Also, the study uses subjective measuring instruments (that is questionnaires) instead of financial or objective data to ascertain the nexus between MFI products and the performance of small businesses. The reason for using subjective constructs is due to the unavailable data of small businesses, Also, MFIs and entrepreneurs are unwilling to provide their secondary data to conduct the study. Moreover, in collecting the data, some of the respondents feared they were going to pay more taxes to the respective District Assemblies, and were unwilling to cooperate. Additional time was required to provide a comprehensive explanation of the research objectives prior to obtaining the respondent's consent to participate in the questionnaire.

Notwithstanding these constraints, the investigator successfully made progress and gathered the requisite data to accomplish the aims of the investigation. The prescribed academic protocol for doing research of this kind was strictly adhered to.

1.8 Chapter Organization

The research is structured into five chapters. The first chapter introduces the study and provides the purpose of conducting the study. The introduction chapter comprises the study's background, statement of problem, objectives and questions of the research, significance, scope and limitations of the study, and organization of the study. The second chapter two provides the literature review. The extant literature is taken from prior articles, and books by the researchers in developing the chapter. The literature review focuses on the theoretical review, general introduction and concepts of SMEs, MFIs history, products, concepts and models, empirical review and conceptual framework or model. Chapter three looks at the study's methodology. It details the design techniques or approaches of the research, population, sample and the techniques used to sample responses, instruments and methods to collect responses, data analysis and econometric models used for the study. Chapter four provides the results and the discussion of the study based on the responses. Chapter Five concludes the study by providing a summary of findings, conclusions, and recommendations based on the study's findings.



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The chapter presents important reviews of the literature on small businesses and MFIs to bring about an understanding of the concepts that underpin their operations. The chapter discusses the theory underpinning the study; the concepts, importance and challenges of small businesses; the evolution of microfinance in Ghana, the meaning of microfinance, models of microfinance, products and services of microfinance, the empirical review, and the conceptual framework of the study.

2.1 Theoretical Review

This section discusses the theory for MFIs and small businesses' performance. Though there have not been any acceptance theories for a study like the present research, the Resource Dependency Theory (RDT) has been utilized in existing studies. The RDT was propounded by Pfeffer and Salancik in 1978 and spearheaded by Sheppard (1995). The basic assumption of this theory is that businesses can survive if they can acquire and maintain resources from their environment (Sheppard, 1995). Fernandez (2008) stipulates that many business operations fail as a result of resource deficiency and Townsend et al. (2010) asserted insufficient resources are some of the reasons why some small firms are unable to perform. Brush et al (1997) also posited that an extra resource is important for ventures to change and grow and insufficient necessary resources can hinder the performance of small businesses. Without the additional or extra resources, the resources required for the growth of the business may be put under pressure as the business grows beyond the available resources needed to support such growth. Thus, organizations that only maintain their available resources without taking the opportunities to acquire extra external resources over time may not succeed or grow.

This study uses this theoretical lens to find out whether the resources provided by MFIs affect the performance of businesses that use such resources or services.

2.2 Small Businesses

2.2.1 Definition of Small Businesses

A business is considered small if its employees are not more than five (Addai, 2017). Statistics in Canada define an SME as any business foundation with a gross income of \$50 million and below and 0 to 499 representatives (Abor and Quartey, 2017). A comparative framework is adopted by the EU in categorizing Small to Medium Enterprises. A medium-sized firm is categorized as a firm with a maximum of 250 representatives; a small-scale business is associated with a headcount of less than 50, and a micro business is categorized as a firm with less than 10 workers (Domeher et al., 2017). The EU framework additionally factors a business' monetary record and its turnover rate (Quartey and Asamoah, 2017). In defining small-scale businesses, the A Report of Bolton Committee (1971) on Small Businesses inside the economy of the United Kingdom, has endeavoured to defeat the issue about the definition of small business sectors as an adequate meaning of small businesses has not been consistently established. An explanation with both subjective (monetary) and quantitative (measurable) components is consequently propounded for small businesses (Addai, 2017). The quantitative (measurable) definition was expressed by watching the number of workers in some sectors concerning size and by the turnover in different sectors. As it were, factual or quantitative definitions incorporate reference to the turnover as well as the number of workers. Fundamentally, the present size of small businesses and their commitment to the economy must be measured, for example, in the GDP, assets, work and advancement (Abor and Quartey, 2010). In Ghana, Mensah (2004) define Small

businesses under three main categories: Micro enterprises: an enterprise that employs up to five workers with a maximum asset of GH¢10,000;

Small firm: a business with 6 to 29 staff with non-current assets not more than GH¢100,000; and Medium firms that have staff within 30 and 99 workers, and its non-current assets not exceeding GH¢1 million (Gyimah et al., 2020). This present study defines small businesses as an enterprise or establishment that has a total staff of 9 and the total value of non-current assets is less than GH¢ 10,000 (Gyimah et al., 2020).

2.2.2 Significance of Small Businesses

Small enterprises have a greater capacity to provide job chances compared to large organizations due to their higher labour intensity (Gyimah and Boachie, 2018; Abor and Quartey, 2010). According to Okpukpara (2009), small enterprises in developing nations, particularly in Africa, play a substantial role in reducing poverty by means of production and employment generation. Nevertheless, it should be noted that microbusinesses, namely street merchants, currently lack formal recognition. Despite this, they play a substantial role in the overall Gross Domestic Product (GDP) and contribute to employment within the informal sector in both developed and developing nations (Liedholm and Mead, 2013). According to the findings of Gyimah et al. (2020) and Gumede (2010), it has been observed that in the context of Ghana, around 92% of enterprises may be classified as small firms. These small businesses have been shown to make a significant impact on the country's Gross Domestic Product (GDP), accounting for approximately 70% of its overall contribution. Furthermore, they also play a crucial role in job creation, being responsible for approximately 80% of employment opportunities within the country. Small enterprises play a significant role in the training and provision of resources for unskilled labour, hence contributing to the

advancement of the informal sector within the economy. The predominant concentration of enterprises in Ghana contributes to the generation of government revenue through tax payments, which in turn supports the supply of infrastructure services inside the country. Additionally, small enterprises contribute to the improvement of living standards among citizens, since the cash generated from their operational operations is utilized to provide sustenance for both themselves and their families.

2.2.3 Challenges of Small Businesses

Small businesses have a notable impact on the advancement of domestic economies. However, it is important to acknowledge that there are numerous obstacles that impede the expansion and progress of small and medium-sized enterprises (SMEs) in Ghana (Addai, 2017; Domeher et al., 2017). The lack of loans from formal financial firms, lack of managerial competencies, lack of infrastructure, unable to use technology, and no regulatory framework guidelines are some of the major constraints facing small businesses (Addai, 2017). Also, Green et al. (2002) stipulated lack of working capital and accessibility of loans are major challenges for small businesses.

Ayeetey et al. (1994), however, argued that the high-interest rate on the loans from MFIs is the main reason why small businesses are unable to survive.

Moreover, the lack of research and development or innovation conducted by small businesses contributes to their failure. They find it extremely difficult to come out with new innovative services or products, and no access to new technologies such as the Internet contributes to the challenge of small businesses (Aryeetey et al, 1994). Additionally, the gaps in financial literacy are high among small business owners, and

the high training or educational programmes (and or unavailable education) affect their performance. Despite the significant role that small and medium-sized enterprises (SMEs) play in economic development, there has been a notable lack of legislative and policy measures implemented to regulate their activities. The development of small enterprises is impeded by the substantial expenses associated with licensing and the legal costs incurred during the execution of business operations and protocols. According to a poll performed in 2006 by the World in Many Economies, the process of addressing licensing matters requires an average of 127 days and entails navigating through a series of 16 distinct procedures in order to obtain the requisite license. The limited financial resources of small and medium-sized enterprises (SMEs) hinder their development by impeding their ability to manage the costs associated with bureaucratic procedures (Abor and Quartey, 2010).

2.2.4 Performance of Small Businesses

The performance of small businesses depends on adequate working capital, better macroeconomic indicators and low-cost pressure (Addai, 2017). Also, Lussier (1995) argued that the performance of small businesses depends on profitability levels and that the success of a firm depends on high-profit levels. Other scholarly authors, however, argue that the performance of a business depends on the experience of the owner's age, the nature of the business and business size (Watson and Everett, 1999).

Since there is no universally accepted definition of what determines the performance of small businesses, the study adopted subjective questionnaire measures by Teng et al. (2011) and Carrero-Morales (2015) studies using profitability levels of business operations. Also, the study adapted the perceived statement on the sales growth

performance measures from Salojärvi, Furu and Sveiby (2005), and Durst, Hinteregger and Zieba (2019) to measure the performance of small businesses used for the study.

2.3 Evolution of Microfinance in Ghana

Canadian Catholic Missionaries were the first to establish MFIs in Ghana in 1955 to sustain small firms in Ghana. However, the common term “Susu” was instigated from Nigeria which is one of the main products of MFIs in Ghana (Asiama and Osei, 2007). The government established MFIs as a variable strategic intermediations program in the 19th century to curb poverty and increase job opportunities in Ghana, Some of these intermediations institutions or MFIs in the 19th century included the Agricultural Development Bank, the Rural and Community Banks (RCBs), liberalized restrictive financial sector; and the credit unions including microfinance savings. The establishment of microfinance savings institutions was officially sanctioned by the enactment of PNDC Law 328 in 1991. According to Asiama (2007), the aforementioned policies implemented by different governments have led to the emergence of three primary categories of microfinance organizations in Ghana. They are Rural and community banks, Microfinance savings and finance loan institutions, and commercial banks which constitute the formal sector, the Semi-formal suppliers of credit facilities which include financial NGOs, cooperative unions and credit unions associations, the informal suppliers of credit predominant in our rural communities including “susu” collectors, accumulating and rotating microfinance savings unions and credit trader’s associations as well as money lenders. According to Asiama (2007), many intervention programmes are designed to cater for the subsector in Ghana and they are geared towards assisting the underprivileged to enhance their standard of living by creating equality, and employment opportunities. Among these programmes are the

Community-Based Rural Development, and the Rural Financial Services Project (RFSP). Agricultural Services Investment Project (ASSIP) and Financial Sector Improvement Project (FSIP).

2.4 The Concept of MFIs

Robinson (2003) defines MFIs as an institution that remit pension funds, give insurance and loans, accepts deposits and provide financial training to low-income individuals in both rural and urban areas. Hagan and Martins (2004) argued that MFIs give a varied variety of financials and other complementariness to both the poor and the rich that require their services. To sum up, microfinance may be described as a financial services provider which is aimed at alleviating poverty creating jobs among the rural poor and gradually bridging the poverty level to an improved standard of living through the provision of savings, insurance and provision of small loans to prospective entrepreneurs or individuals. It is important to note that MFIs provide non-financial and financial products or services to clients and households for an individual in the low-income generating categories and also offer managerial education on how to properly invest the loans or credits or funds into a profitable venture.

2.4.1 Products and Services of MFIs

Services or products offered by microfinance institutions are categorized into financial and non-financial services. Microfinance loans, microfinance savings and insurance given by microfinance institutions are classified as financial products; and Microfinance educational training is considered as the non-financial service provided by microfinance institutions.

2.4.1.1 Micro Loans

Microloans is one of the major financial products provided by MFIs. It includes the financial resources provided to entrepreneurs spread over some periods to make full payment including the interest at a certain percentage. Microloans and microcredit mean the same, and this present study used these two words interchangeably. Since small businesses do not sometimes have any security or collateral to apply for loans, the MFIs base the character of the business owners or entrepreneurs to grant them the loan. Prior research attempted to estimate the size of microfinance credit. Buyske (2004) argued that loans provided by MFIs are within the ranges of \$300-\$1000, or more depending on the character of the business owner. Christen et al. (2003) also argued that entrepreneurs may be given high loan amounts depending on the firm's cash flows, customer base, and the owner's character and prior trust. Similarly, Ledgerwood (1999) posited that the non-formal financial institutions consider the positive cash flows of business owners before granting them credits because positive cash flows show that the entrepreneurs have the capacity and ability to pay the loan when given. Microfinance loans are disbursed via microfinance interventions, which serve several objectives. Typically, the utilization of these MFI credits is directed towards investment and the building of wealth. Those clients or beneficiaries of the MFI loans usually paid the loan through the profit accrued from their investment. The United Nations Capital Development Fund (2004) report clearly states that the sustainability, performance or success of small businesses depends on the MFIs loans because it increases their working capital and economic welfare.

2.4.1.2 Micro Savings

These are what is normally described as the “susu” in Ghana. Wenner et al. (2003) argue that there is a need for microfinance savings facilities for small businesses in emerging economies, particularly those in rural communities. Wenner et al. (2003) argued that the majority of formal banks do not provide favourable conditions for rural small firms, and thus small firms depend on MFIs for survival. Thus, the MFIs are the only hope, especially for underprivileged women in the rural economy who do daily savings known as “Susu” for an accumulated higher amount for investment, and other profitable ventures. Existing literature suggests that MFIs savings improve poor household finances, and protect underprivileged economic individuals in the accumulation of wealth that can help them invest in profitable ventures or expand their existing business.

2.4.1.3 Micro Insurance

MFI insurance is a low charge in the form of a premium provided to small business owners or entrepreneurs in the case of misfortune (Oscar and Abor, 2013). It is the risk rate charged by MFIs and distributed to clients to sustain their business when a disaster occurs beyond their control. According to Oscar and Abor (2013), MFIs include insurance packages for their customers who save with them. This reduces the credit risk loan provided and can help convert to low-interest charges. The lower interest charge can help entrepreneurs apply for high credits that are injected into the working capital of their businesses helping them to grow. The insurance provided by MFIs covers the client’s assets, life or health against any disaster. According to Abor (2013), those who continue to safeguard their resources by micro-insurance can cope with risks and evade financial debts.

2.4.1.4 Micro Education

MFIs provide financial literacy, workshops and seminars for their clients on how to effectively manage scarce resources, inventories, and other business activities. The education provided by MFIs is usually within one hour given to clients that focus on significant business operation issues that contribute to the performance of small businesses. Normally, the education touches on how or invest the loans granted to them into profitable ventures to help them pay the loans with the interest. Also, the education provided by MFIs provides basic bookkeeping knowledge on how to keep proper accounting and financial information (Dunford, 2001). An example of a credit program that incorporates microfinance education is the technique implemented by Freedom from Hunger Worldwide. This initiative aims to address poverty through self-help approaches and was first introduced in West Africa in 1988. Finally, the financial literacy, educational seminars and training provided by MFIs such as bookkeeping, financial management, etc. increase the performance of small businesses.

2.4.2 Delivery Models of Microfinance

The Bank of Grameen outlined fourteen microfinance models in Bangladesh but this research study will discuss the three major used models. These three models are rotating microfinance savings and credit associations, the Grameen solidarity group model and the village banking model. This study will also consider the “Susu” model and credit union model in Ghana.

2.4.2.1 Grameen Solidarity Group Model

This model was initiated by Dr Yunus in Bangladesh. Under this model, individual groups consisting of five members are established voluntarily in the form of joint

liability. The model implies that members in the group default if any other group member refuses to repay their obligations. (Besley and Coate, 1995). Also, any borrower unable to redeem his or her debt is removed from the group but those who can pay on time are given some incentives by receiving higher credits over time (Morduch, 1999). That is why under the Grameen solidarity model, one will choose to belong to a group that he or she thinks that members can pay their microfinance loans on time to increase their chance of getting larger amounts of microfinance loans. Members share the debt of any group member who was unable to pay their microfinance loans given by microfinance institutions. Normally, repayments under this model are paid in public and amounts are paid in instalments (Armendariz and Morduch, 2005). One important characteristic of this model is that it is basically for women (Conroy, 2003 cited in Herfandy et al., 2009) who form groups to benefit from such credit.

2.4.2.2 The Village Banking Model

According to Holt (1994), this type of model is normally financial services given by NGOs in rural communities. Members in rural areas form microfinance savings associations to benefit from some credit or microfinance loans from NGOs for startup businesses. According to Grameen Bank (2000), this microfinance model was dominant in the 1980s where members between 25 to 30 contributed some amount of money and gave it to individuals in a microfinance loan with interest. Members choose their officers to manage their funds and collect the microfinance loans with no interest from persons who received such microfinance loans. Normally, the microfinance savings of members are tied to the amount of microfinance loan which implies that, the higher the microfinance savings the higher the credit. According to Ledgerwood (1999), members

sign a microfinance loan agreement form with the village bankers as a means of collective guarantee and members are usually requested to save twenty per cent of the microfinance loan amount per cycle. Also, Holt (1994, p.158) asserted that such a model is normally participated by women to enhance their social status and intra-household bargaining power.

2.4.2.3 The Rotating Saving and Credit Associations

According to Grameen (2000), rotating microfinance savings and credit association is a type of model where individuals form groups and contribute a specific amount of money and the total money is given to one person and this will continue till all members in such group receive theirs. According to Harper (2002), this particular model is well recognized as a prevalent approach in the realm of microfinance, encompassing both savings and lending services. According to the author, the individuals comprising the group typically consist of individuals who reside in close proximity to one another and share personal relationships. These groups serve as a platform for fostering social engagement and have gained significant popularity, particularly among female participants.

2.4.2.4 The Susu Model

The model is commonly practised in Ghana where microfinance institutions collect daily or weekly specific amounts of money from clients. Sometimes there are charges for such service delivery. Many small businesses in Ghana continue to use this model which supports their income and saves the income that they get daily from these microfinance institutions. In Ghana, such microfinance savings accumulated for some time can be used as collateral to grant microfinance loans to business owners.

2.4.2.5 Credit Unions Model

Another known model of microfinance is a credit union. In Ghana, religious bodies, corporate institutions and other corporate bodies have formed such unions. The credit union is a non-profit financial association that is owned and managed by its members with the objectives of granting microfinance loans and other microfinance educational training. According to Chua et al., 2006 cited in Berglind and Karimi, 2007, credit unions offer insurance against idiosyncratic risks (e.g. household specific). Kim et al., (2004) asserted that this model is more microfinance savings-driven while many other microfinance institutions are credit-driven and sometimes the model is for members that usually have a common bond in their profession or religion.

2.4.3 Approaches of Microfinance

2.4.3.1 Institutional Approach

The Institutionalists method is a microfinance method that places emphasis on the commercial fit and viability of Microfinance institutions. Woolcock (1999) posits that the sustainability of an institution is contingent upon its capacity to generate and function in a financially self-sufficient manner, without relying on external support from local or international sources. Moreover, obtaining finance from external sources poses challenges, as only a limited number of institutions are capable of offering longterm financial services and attaining the required economies of scale. This approach places emphasis on the sustainability of microfinance institutions and asserts that their effectiveness is maximized when they remain dedicated to their fundamental expertise in delivering financial services. This method is predicated on the fundamental concept that a self-sustaining microfinance institution has the capacity to extend its

reach and provide assistance to a larger number of clients compared to relying on external donors for financial support. The detractors of this methodology argue that it prioritizes the interests of microfinance institutions over those of borrowers. As a result of this phenomenon, the entities offering microfinance services assume a role that resembles that of debt collectors rather than service providers. The underlying premise of this approach neglects to acknowledge that various poverty-related circumstances, such as inadequate access to food, limited market opportunities, excessive reliance on credit, and lack of technical business knowledge, frequently hinder recipients from effectively utilizing their microfinance loans for entrepreneurial endeavours. The exclusive use of credit as a payment method may be effective for certain clientele, while proving less suitable for others.

2.4.3.2 Welfarist Approach

This particular methodology is alternatively referred to as the poverty-lending approach. In contrast to the institutionalist perspective, this particular method places emphasis not solely on the delivery of financial assistance, but also on the enduring and sustainable improvement of the impoverished individuals' livelihoods. The methodology employed in this study was the utilization of a delivery model commonly referred to as "credit-plus", wherein supplementary services are provided in conjunction with microcredit services. One potential criticism of this method is its potential reliance on external help or benefactors. For instance, individuals who possess an interest in complementary services related to microfinance, but do not have an inclination towards microfinance loans, may find themselves compelled to borrow in order to avail themselves of those services. Hence, consolidating many services into a single entity may potentially amplify the recipient's exposure and risk, rather than enhancing their

access and support. Moreover, it is unlikely that these institutions will be able to obtain the required capital to effectively reach the vast number of individuals who stand to profit from micro-lending services. Furthermore, there has been a restriction on donor support towards microfinance institutions (MFIs) in recent years. Hence, it is crucial to transition from a singular focus on poverty lending to alternative techniques that can ensure the long-term viability of microfinance institutions, thereby facilitating the growth of companies for their beneficiaries.

2.4.3.3 Minimalist approach

This method is grounded on the premise that the absence of affordable and easily obtainable short-term loans is a key factor hindering economic advancement within impoverished communities. Proponents of the minimalist approach argue that the provision of microcredit to those with low incomes constitutes an independent strategy for development. This method exclusively provides financial intermediation services, such as credit, payment systems, insurance, and microfinance savings, to those with low income. The proponents of minimalism contend that microfinance institutions (MFIs) should prioritize addressing the financial requirements of their clientele and strive to provide superior financial services, rather than attempting to excel in multiple areas without achieving mastery in any. It is imperative to provide small businesses with the necessary tools and resources to effectively utilize the financial solutions at their disposal. However, it is important to note that microfinance institutions cannot single-handedly address this issue, as these institutions are mostly owned by investors who prioritize profit-seeking. Therefore, it is imperative for all development organizations to collaborate and work collectively in order to effectively tackle this challenge.

2.4.3.4 Integrated Approach

The integrated approach lays significant emphasis on the provision of a diverse variety of development-oriented services in conjunction with credit to individuals living in poverty, with the aim of addressing the fundamental causes of poverty. Rutherford (2000) critiques this method by highlighting that microfinance organizations offer a comprehensive array of services, including microfinance savings facilities and flexible money management options, which likely assist individuals in poverty in comprehending and strategizing for their financial requirements. Nevertheless, this particular technique is distinguished by its elevated operational expenses, as the allocated funds must also cover additional services provided by microfinance banks. This technique is effectively administered, considering the sociocultural, political, economic, and physical requirements of their clientele.

2.5 Empirical Review

Existing literature findings on the microfinance performance of small businesses nexus in developing and developed economies are uncertain. A prior study by Nilsson (2010) that examined the effect of MFIs on businesses found that MFIs improve the living standards of low-income and improve the conditions of small businesses' performance. Also, Christopher's (2010) study in Nigeria revealed that small businesses benefited from the MFI's microfinance loans but few were able to get the amount they needed. Thio (2006) similarly conducted a study on the impact of microfinance and small firms' performance and reported that there is a positive relation between MFIs and firms' performance, however, microloans hurt the performance of small businesses.

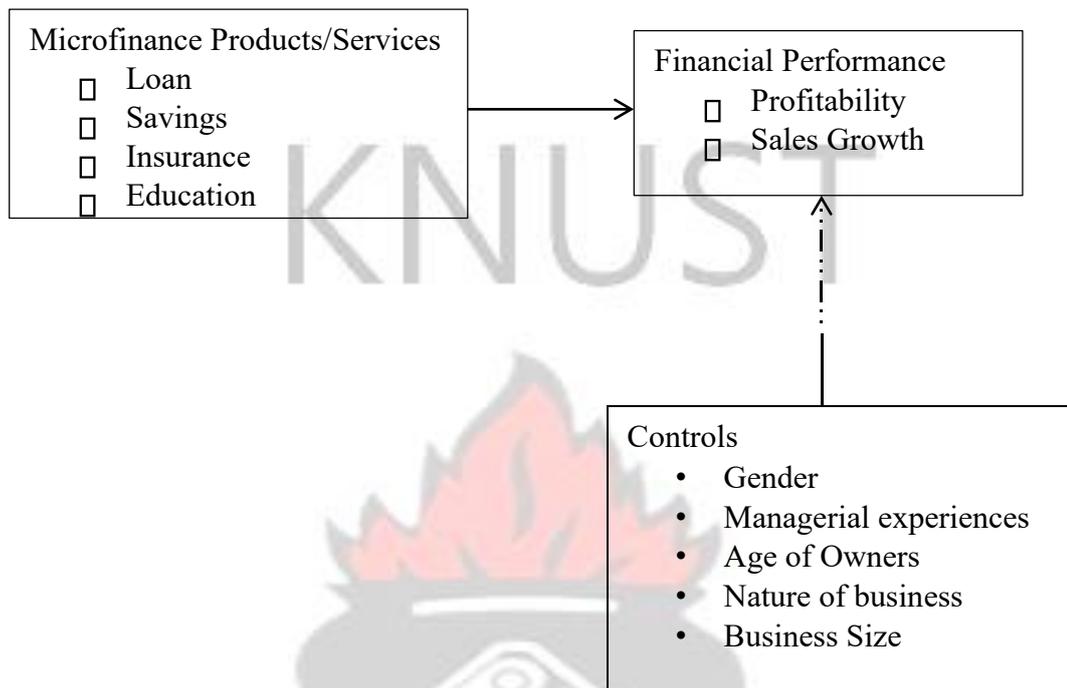
Moreover, Kisaka and Mwewu (2014) reported positive significant effects on the performance of small firms in Kenya, but education does not affect small firm's performance. Additionally, Appiah et al. (2009) explored the roles of microfinance institutions on businesses and concluded that MFIs reduce poverty in Ghana. Likewise, Fauster's (2014) study also found that microfinance positively affects the sales growth of entrepreneurs, Also, he reported a positive relationship between sales revenue (the performance indicator) and microloan, and training (predictors indicators).

Furthermore, Alhassan et al (2016) also examined the effect of MFIs on the performance of small businesses and concluded that MFIs product positively increases gross profit over time. Similarly, Awuah and Addaney's (2016) study argued that the nexus between MFIs and small firms' performance has a direct relationship indicating that MFIs increase the performance of small businesses. This present study finds out whether the findings would be different using data from Ghana to assess whether MFI products affect the performance of small businesses.

2.6 Conceptual Framework

The study shows a network diagram to present the dependent, independent, and control variables used to assess the effect of microfinance products or services on small businesses' performance. The dependent variables include the profitability and sales growth of small firms. The independent variables are microcredit, savings, education, and insurance, and the control variables are gender, managerial competencies of the owner, age of the owner, nature of business or industry, and business size. Figure 2.1 shows the network diagrams linking the dependent, independent, and control variables.

Figure 2.1: Conceptual Framework



CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The chapter discusses the methods employed to undertake the research. It discusses procedures used in collecting and analysing responses to answer the research questions on the nexus of Microfinance Institutions on the performance of small firms in Ghana. It presents and discusses the designs, the population, the techniques used to sample responses, the collection procedures of the data, data analysis and models, validity and reliability, and ethical considerations.

3.1 Research Design

The research design explains how the objectives of the research project were accomplished (Saunders, Lewis and Thornhill, 2009). Grønmo (2019) argues that there are generally three research methods; qualitative, quantitative, and mixed methods. Grønmo (2019) identifies that the quantitative method of research design involves systematic empirical studies which require quantifying through the help of statistics and mathematics. Thus, data are gathered converted into numbers and empirically tested to find out the relationship or effect that exists to help conclude from the results gained (Ghauri, Grønhaug and Strange, 2020).

Qualitative research on the other hand is not dependent on any numbers or statistics (Bougieand Sekaran, 2016). According to Grønmo (2019), the qualitative method of research emphasizes understanding, observation in natural settings, and closeness to data with some kind of insider view. The method used for this research is the quantitative approach, where objective performance-measured variables are analysed statistically, mathematically, or numerically based on the responses from questionnaires (Saunders et al., 2009; Grønmo, 2019). The study uses the quantitative approach using descriptive and inferential statistics to investigate the effects or impacts of MFIs on the performance of small businesses, using respondents from Ghana. Also, the purpose of the research is to explain the relationship between MFIs and small businesses' performance. Therefore, the study uses explanatory research to examine the nexus of MFI products or services (microcredit, savings, education, and insurance) including control variables such as gender, managerial competencies, owner's age, nature of

business or industry, and business size) and the performance of small businesses in Ghana.

Moreover, a cross-sectional study is used for the study. The reason is that the responses from the sample used for the study were drawn from a cross-section of the population at one point in time (Ghauri et al., 2020). Finally, the research adopted a survey strategy to collect responses from the sample to answer the research questions. The design measures differences between or from among a variety of people, subjects, or phenomena rather than change (Bougieand Sekaran, 2016). As such, researchers using this design can only employ a relatively passive approach to making causal inferences based on findings (Saunders et al., 2009; Grønmo, 2019).

3.2 Population of the study

The population is the entire group of elements about which inferences are made (Saunders et al., 2009). Grønmo (2019) defines a population as a group of individuals for which sampled responses are taken for analysis. Also, Ghauri et al. (2020) argue that a study's population comprises all units of the phenomenon to be explored. Henceforth, the study's population is the 328 registered entrepreneurs or business owners of the National Board for Small Scale Industries (NBSSI) at the Accra Office, Ghana.

3.3 Sample and Sampling Technique

Emphatically, for a study of this nature, it is not possible to study the entire population to present an accurate description of them and to generalize the findings of the study. According to Saunders et al. (2009), the term sample connotes a group from a

population that is representative of a population. Sampling on the other hand refers to the technique used in the selection of a proportionate representation from a total sample size (Ghauri et al., 2020). Grønmo (2019) asserts that the sampling method is a thoughtful choice of several respondents that can help provide the data that can be used to draw empirical conclusions about a population.

Saunders et al. (2009) also report that sampling techniques result in greater accuracy of result of population elements at lower cost, and greater speed of data collection. These are probability and non-probability sampling techniques. Probability sampling gives every element within a population an equal chance of being selected. The nonprobability sampling technique on the other hand does not give all the elements a chance of being selected as part of the sample. That is, the selected sample is not a representative sample of the entire population. This study however combines the two techniques identified. A simple random sampling method as a probability sampling technique was adopted by this study in selecting the individuals in the study area. The reason is that each individual in the study area stood an equal chance of being selected in the final sample.

Again, the study employs the convenience sampling method as a non-probability sampling technique to select small businesses to be included. This was done to speed up the rate of data collection. Using these techniques, the researcher selected 225 businesses for the study. The justification is that Pallant (2010) suggests that 100 samples are good for quantitative studies. Before arriving at the final sample used for the study, the researcher contacted the respondents by telephone to seek their consent

regarding their interest in participating in the research. Out of the total population at the NBSSI Accra office (328 businesses), 300 were willing to participate in the study.

However, 225 responded to questionnaires representing a 75% response rate..

3.4 Data Collection

Bougie and Sekaran (2016) define data collection as the process used to collect data to achieve the specific objectives of research. According to Saunders et al.(2009), some strategies or sources of data are available to gather information. The key issue associated with the gathering of information is choosing the appropriate data to answer the research questions (Bougie and Sekaran, 2016). According to Grønmo (2019), the information obtained by a researcher from direct sources, using methods such as surveys, meetings, or experiments is termed primary data. It is collected concerning the research objectives, specifically from direct sources. This term is used contrary to secondary data. Secondary data is assembled from works, surveys, or analyses made by other researchers or for other research (Bougie and Sekaran, 2016).

The data collection method for this study is a primary data source through the use of a structured questionnaire.

3.5 Data Collection Procedures

Data is collected using primary sources by distributing questionnaires and interview guides(Ghauri et al., 2020). Questionnaires are offered to small business owners or entrepreneurs to react to, by filling it either without anyone else's input or guide and explaining to those who cannot read and write for them to answer the questions. Questionnaires administration is used because they are the most appropriate way of collecting information of this kind. The questionnaire is deemed a very useful method

for the collection of primary data. This is because a questionnaire has the advantage of being a low-cost option and also allows research participants to think about questions. The researcher developed a questionnaire based on the research questions, and it is in three parts. Section A was made up of information relating to the research participant's socio-demographic characteristics. Sections B to C were made up of questions relating to the achievement of the objectives of the study.

A 7-point Likert scale from strongly agree to strongly disagree is used to measure how respondents agreed or disagreed with issues. According to Cooper and Schindler (2006), a Likert scale refers to a psychometric response scale used in questionnaires to gather research participants' preferences or the extent of agreement with statements or factors. A 7-point Likert scale is used in this study to show the levels of agreement with the question items addressing MFIs-small businesses' performance nexus. Presented on the questionnaire were guidelines to ensure that respondents understood the question items, to suitably respond. The question items are worded in close-ended allowing for short responses or selection of selected choices to aid in the quantitative analysis.

3.6 Data Analysis

The retrieved responses were coded and entered in Excel based on the model indicators or the constructs used for the study. The coded responses are then uploaded into STATA 15 to evaluate the responses. Depending on the nature of the data collected, the following statistical techniques have been applied; descriptive analysis, multiple regressions, mean, standard deviation and Pearson correlation coefficient. Descriptive statistics (mean, standard deviation, and percentages) are used to determine the commonality and deviation in respondents' responses. Inferential statistics on the other

hand is used to make inferences from the sample to the entire population. Correlation also aids in finding the relationship between variables, while the multiple regression models are used to investigate the effect of MFI products or services (including control variables) on the performance of small businesses.

3.7 Models

The study uses multiple regression to test the relationship between dependent and independent variables including the control variables. Following existing literature studies on the performance measures of small businesses in developing countries, two (2) measures are used to measure the dependent variable (performance). They are the profitability levels and sales growth (Carreero-Morales, 2015; Teng et al., 2011; Gyimah and Boachie, 2018). The independent variables are microcredits or loans, savings, education, and insurance; and the control variables are gender, managerial competencies, age of owner, nature of business or industry, and business size). The models for the study are as follows:

$$\text{Profitability} = \beta_0 + \beta_1\text{Loans} + \beta_2\text{Savings} + \beta_3\text{Insurance} + \beta_4\text{Education} + e \quad (1)$$

$$\text{Profitability} = \beta_0 + \beta_1\text{Loans} + \beta_2\text{Savings} + \beta_3\text{Insurance} + \beta_4\text{Education} + \beta_5\text{Gender} + \beta_6\text{Managerial competencies} + \beta_7\text{Age} + \beta_8\text{Industry} + \beta_8\text{Size} + e \quad (2) \quad \text{Sales}$$

$$\text{Growth} = \beta_0 + \beta_1\text{Loans} + \beta_2\text{Savings} + \beta_3\text{Insurance} + \beta_4\text{Education} + e \quad (3)$$

$$\text{Sales Growth} = \beta_0 + \beta_1\text{Loans} + \beta_2\text{Savings} + \beta_3\text{Insurance} + \beta_4\text{Education} + \beta_5\text{Gender} + \beta_6\text{Managerial competencies} + \beta_7\text{Age} + \beta_8\text{Industry} + \beta_8\text{Size} + e \quad (4)$$

3.7.1 Measurement of Variables

The dependent variables are measured using adapted perceived statements on each of the variables on a 7-point Likert. The profitability variable question was adapted from

Teng et al. (2011) and Carrero-Morales (2015) studies. Based on a 7-point scale ((1 low profit to 7 high profit), respondents were asked to choose the correct profit levels of their business after assessing MFI products. However, for the growth in sales or sales growth variable, business owners are asked to assess the sales growth of their business in the past 3 years on a scale from 1 to 7. The study adapts the variable from Salojärvi, Furu and Sveiby (2005), and Durst, Hinteregger and Zieba(2019).

In terms of the independent variables - microcredits or loans, savings, education, and insurance, the study adopts the perceived statements measured on a 7-point Likert scale (1 – strongly disagree to 7 – strongly agree) used by Aladejebi(2019), and Gyimah and Boachie (2018). Appendix A shows these statements on each of the variables. Gender is a dummy variable that is equal to 1 if the respondent is Male, and 0 otherwise. Managerial competencies are measured on a 5-point scale where 7 is equal to highly competent and having managerial experience, and 1 is not competent and has little managerial experience. The age of the owner is a ratio measure which is equal to the owner’s age in years. Due to the argument of Dun and Bradstreet (1995), and Teng et al. (2011), retail businesses do not perform well in terms of sales growth and profitability. Therefore, the industry variable is also a dummy variable 0 is equal to retail/services businesses, and 1 otherwise. Finally, the size is a ratio indicator that is equal to the number of staff in the business (Teng et al., 2011).

3.8 Validity and Reliability of the Study

The validity of a research instrument denotes how well the instrument measures what it is supposed to measure (Ghauri et al., 2020). The study adopted and/or adapted some of the measuring constructs from the studies by Aladejebi (2019), Dun and Bradstreet

(1995), Carrero-Morales (2015), Durst et al. (2019), Gyimah and Boachie (2018), Teng et al. (2011) and Salojärvi et al. (2005). This approach helps to accomplish the face and content validity. Since the economy of Ghana is not the same as the countries that the study adopted their measures, some of the constructs were adapted or modified to suit the socioeconomic perspective of Ghana. Again, the questionnaires were given to academic and industrial experts including the supervisor to scrutinize the survey instruments, and the necessary corrections were incorporated for the data analysis.

Reliability is the extent to which an instrument is consistent in its measurement over time and across situations (Grønmo, 2019). In other arguments, if a researcher were to take the survey several times, the individual's score should remain comparatively consistent with slight deviation. Thus, an instrument can be reliable without being valid but it cannot be valid unless it is reliable (Saunders et al., 2009). The reliability of the survey instrument was assessed using Cronbach's Alpha. This allowed for the measurement of the overall reliability and consistency of the scales from the survey instrument (Crocker and Algina, 1986). The alpha coefficient for the 32 items used in this study is 0.68, suggesting that the items have relatively high internal consistency. According to Nunnally and Bernstein (1994), reliability within the ranges of 0.6, 0.7, 0.8 and 0.9 are acceptable.

3.9 Ethical Consideration

According to Wilmé et al.(2016), ethical choices refer to a compromise between the rights and privacy of respondents especially in qualitative research. He further posited that scientists have the right to search for truth, but not at the expense of the rights of other individuals in society. Ethical principles relating to the conduct of research were

adhered to. Telephone calls were made to seek permission from the entrepreneurs business owners or respondents before they were used for the study. All necessary materials and sources used in the study were duly recognized, acknowledged, and cited.

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CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter focuses on data analysis on the MFI product or services and its effect on the performance of small businesses in Ghana, The chapter reports the descriptive statistics of demographics of the respondents, perceived statements of the variables; and the inferential statistics such as the Pearson correlation matrix, Cronbach Alpha, VIF, Tolerance levels, and regressions results for Models 1 to 4. Discussions of the results are also presented to achieve the specific objectives of the study.

4.1 Demographic Statistics

For a well-appreciative demographic of business owners, the study sought data from the respondents. This section provides brief descriptive statistics of the gender of the

owner, the owner’s educational background, the location of the business, and the nature of (or industries or sectors) of the businesses.

4.1.1 Gender

Out of 225 respondents, 135 of them were males representing 60%. The remaining business owners were 90 representing 40%. The data shows that the males are more than of females doing business in Ghana. New research needs to affirm this observation using a large dataset across the country, specifically in the Accra Metropolis. Table 4.1 presents the results for gender.

Table 4.1: Gender

Gender	Freq.	Per cent	Cum.
Male	135	60	60
Female	90	40	100
Total	225	100	

Source: Field Survey (2023)

4.1.2 Educational Background

In terms of the respondent’s educational background, Table 4.2 shows that the majority representing 43% have diploma certificates. This is followed by holders of undergraduate certificates representing 24%. 5% and 8% represent those who have no formal education (including BECE and WASSCE) and post-graduate degrees, respectively. Other degree holders are 4 representing 3%. The study’s findings show that the majority of business owners in Ghana have some level of formal education.

Table 4.2: Educational qualification

Educational background	Freq.	Per cent	Cum.
None	11	5	5
BECE	12	5	10
WASSCE	18	8	18
Diploma	97	43	61
Undergraduate Degrees	52	24	85
Post-graduate Degrees	27	12	97
Others	8	3	100
Total	225	100	

Source: Field Survey (2023)

4.1.3 Nature of Business

The nature of business here also represents the business sector or industries, and they have been interchangeably. This study uses the industry classification (retail and services, trade, and manufacturing) outlined by Burhan et al. (2020). From Table 4.3, 38% are in retail and services, 33% are in the manufacturing business activities, and the remaining 29% are in the trading category.

Table 4.3: Nature of Business

Industry	Freq.	Per cent	Cum.
Retail and Services	85	38	38
Manufacturing	75	33	71
Trade	65	29	100
Total	225	100	

Source: Field Survey (2023)

4.2 Descriptive Statistics for Perceived Statements

4.2.1 Micro Loans

This section presents the descriptive statistics of constructs used to measure the independent variable, microloans or credits provided by MFIs. Table 4.3 presents the results. From Table 4.3, the result shows that the period to receive a microfinance loan affects the performance of the business with a mean of 5.10 and a standard deviation (SD) of 1.58 implying that microfinance institutions can grant microfinance loans to these businesses within the reasonable period as compared to formal financial institutions. Also, the respondents agree that security requirements affect the performance of the business (mean = 4.93, SD = 1.57), and long-term periods of repayment of interest on the loans taken from MFIs affect the small businesses' performance (mean = 4.76, SD = 1.53). However, the respondents do not think the interest rate on the loans affects their performance (mean = 4.30, SD = 1.53).

Table 4.4: Micro Loans

Perceived Statements	Mean	S.D	Min	Max
The period to receive microfinance loans affects the performance of the business.	4.57	1.52	1	7
Microfinance loans with long-term periods affect the performance of the business.	4.76	1.53	1	7
Microfinance security requirements affect the performance of the business.	4.93	1.58	2	7
Interest rate on microfinance loans affects the performance of the business	4.30	1.53	1	7
Microfinance repayment period loans affect the performance of the business	5.10	1.58	3	7

 Source: Field Survey (2023)

4.2.2 Micro Savings

Table 4.5 also presents the descriptive statistics on the constructs for micro-savings on their effect on the performance of small businesses. From Table 4.4, micro-saving services have the highest effect on the performance of businesses (mean = 4.47, SD = 1.54), indicating the performance of small businesses depends on the savings made by entrepreneurs. Also, the results indicate that the interest earned on the savings of entrepreneurs at MFIs contributes to their performance, success or productivity (mean = 4.41, SD = 1.46). Thus, the interest rates on microfinance savings affect the performance of small businesses. However, the result indicates that the various types of microfinance savings accounts do not affect the performance of the business (mean = 4.11, SD = 1.30). This shows that savings being current, premium, fixed deposit or any other type of savings at MFIs by entrepreneurs do not affect their performance. Similarly, minimum microfinance savings (mean = 4.07, SD = 1.28), and savings through mobile money (mean = 4.00, SD = 1.26) do not contribute to the performance of small businesses.

Table 4.4: Micro Savings

S	Perceived Statements	Mean	S.D.	Min	Max
	The minimum microfinance savings affect the performance of the business	4.07	1.28	1	7
	The interest rate on microfinance savings affects the performance of the business	4.41	1.46	1	7

The various types of microfinance savings accounts affect the performance of the business	4.11	1.30	1	7
Microfinance savings through mobile affect the performance of the business	4.00	1.26	1	7
Microfinance savings service is important in the performance of the business	4.47	1.54	2	7
Average scores	4.21	1.37		

Source: Field Survey (2023)

4.2.3 Micro Insurance

The results in Table 4.5 indicate that the majority of the respondents were neutral in responding to the perceived statements on micro insurance and the performance of small businesses. This shows that the respondents neither agree nor disagree on the constructs that micro insurance affects the performance of small businesses. For instance, some of the respondents agree that the duration taken to pay the insured amount when a risk happens affects the performance of the business, while others argued otherwise (mean = 4.01, SD = 1.28). Also, the respondents do not agree that the insurance premium funds (mean = 4.00, SD = 1.27), and insurance funds (mean = 3.98, SD = 1.27) affect the performance of business.

Table 4.5: Micro Insurance

Statements	Mean	S.D.	Min	Max
Microfinance insurance funds affect the performance of business	3.98	1.25	1	7
Insurance premium funds affect the performance of the business	4.00	1.27	1	7

The duration taken to pay the insured amount when a risk happens affects the performance of the business	4.01	1.28	1	7
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Average scores	4.00	1.26		
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Source: Field Survey (2023)

4.2.4 Micro Education

Table 4.6 provides the descriptive statistics of the perceived statements on micro education.

The average score (5.95) indicates that education provided by MFIs to small business owners or entrepreneurs contributes to their performance. From Table 4.6, the respondents agree that the result shows that MFIs' education on proper investment areas contributes to the performance of the business (mean = 6.04, SD = 2.36). This educational perspective on investment decisions helps them to make a proper investment that eventually increases their growth and profitability. Also, the respondents agree that the education provided by MFIs on how to keep financial and/or accounting records increases their performance (mean = 6.03, SD = 2.32). Again, the result shows that the education on how to invest properly in credits or loans given by MFIs significantly affects the performance of business (mean = 5.97, SD = 2.28). In addition, the study reports that education on how to manage business operations (mean = 5.86, SD = 2.24), and regularity of microfinance education (mean = 5.86, SD = 2.21) affect the performance of small businesses.

Table 4.6: Micro Education

Perceived Statements	Mean	S.D.	Min	Max
The regularity of microfinance education affects the performance of businesses.	5.85	2.23	3	7

Microfinance education on how to manage operations of business affects its performance	5.86	2.24	4	7
Microfinance education on how to keep financial records of the performance of business	6.03	2.32	5	7
Microfinance education on how to invest properly in credits given affects the performance of business.	5.97	2.28	3	7
Microfinance education on proper investment areas affects the performance of business.	6.04	2.36	4	7
Average scores	5.95	2.28		

Source: Field Survey (2023)

4.2.5 Performance of Small Business

Tables 4.7 and 4.8 present the perceived statements used to measure the performance of small businesses. As stated in Chapter 3, the study adapted the measures from Teng et al. (2011), Carrero-Morales (2015), Salojärvi et al. (2005), and Durst et al. (2019).

From Table 4.8, the result shows that microfinance services or products affect the performance of businesses in terms of sales growth (mean = 4.96, SD = 2.36). Also, the sales growth of the small businesses is more than the past 3 years (mean = 4.93, SD = 2.38), and capital realized in terms of the growth of sales in the year 2019 is more than the past 3 years (mean = 4.70, SD = 2.37) because of the use of microfinance products or services. From Table 4.8, in terms of the profitability levels, the respondents agree that their profit is within the industry average profit due to the use of microfinance products (mean = 4.70, SD = 2.37). The respondents also agree that profit is within the industry average profit due to the use of microfinance products (mean = 4.91, SD = 2.36). However, the respondents were neutral and/or uncertain that their profit was below the industry average profit due to the use of microfinance

products (mean = 4.06, SD = 2.00). Finally, the respondents somehow disagree (mean = 3.45, SD = 1.67) that their business is currently making a loss due to the use of microfinance products.

Table 4.7: Sales Growth

Statements	Mean	S.D.	Min	Max
Capital realized in the year 2019 in terms of sales	4.70	2.37	2	7
Current sales growth is more than the past 3 years because of the use of microfinance products or services.	4.91	2.38	3	7
Current sales have increased in the past 3 years because of the use of microfinance products or services.	4.96	2.36	3	7
Using microfinance services or products has increased the performance of businesses in terms of sales growth.				

Field Survey (2023)

Table 4.8: Profit Levels

Perceived Statements	Mean	S.D.	Min	Max
Profit is currently above the industry profits due to the use of microfinance products.	4.70	2.37	2	7
Profit is within the industry average profit due to the use of microfinance products.	4.91	2.38	3	7
Profit is below the industry average profit due to the use of microfinance products.	4.06	2.00	2	7
The business is currently not making a profit due to the use of microfinance products.	3.45	1.67	1	7

Source: Field Survey (2023)

4.3 Summary Statistics of Variables

Table 4.9 shows the summary descriptive statistics (mean and standard deviation) of the independent variables including the control variables used for the study. From Table 4.9, the descriptive statistics indicate that micro-education has the highest mean of 5.96 and standard deviation (SD) of 2.29. The result implies that business owners or entrepreneurs agree that educational services contribute to performance or growth. This is followed by microloans with a mean (SD) of 4.74 (1.55) indicating that most small business owners agree that the growth of small business somehow depends on loans provided by MFIs. Micro savings also recorded a mean (SD) of 4.22 (1.38) indicating a neutral position where some business owners believe that savings help them to accumulate funds that are plough back into business operations, and this affects their performance. Micro insurance records the lowest mean (SD) of 3.41 (1.27) with a standard deviation of 1.08 indicating that business owners somehow disagree that insurance services provided by MFIs affect their performance.

In terms of the control variables, the study shows that about 75% of the study is male, and this confirms the results of gender presented under demographics statistics. Also, the study indicates that most of the respondents used for the study have some level of managerial experience or competencies (mean = 4.29, SD = 1.36) to conduct the operation of the business. Also, the minimum and maximum ages of the respondents or the sample business owners used for the study are 21 years and 62 years, respectively. The study shows that the average age of owners is approximately 43 years indicating that entrepreneurs in Ghana are in the range of active working population. Moreover, the result in Table 4.10 shows that the average number of all the sample businesses has

five working staff and over 50% of the businesses are into either manufacturing or trade (mean = 0.51) but not retail or services.

Table 4.9: Summary Statistics (n = 225)

Variables	Mean	S.D.	Min	Max
Loans	4.74	1.55	1	7
Savings	4.22	1.38	1	7
Insurance	3.41	1.27	1	7
Education	5.96	2.29	3	7
Gender	0.75	0.21	0	1
Managerial competencies	4.29	1.36	2	7
Age	42.86	21.86	21	62
Industry	0.51	0.12	0	1
Size	5.00	2.05	1	9

Source: Field Survey (2023)

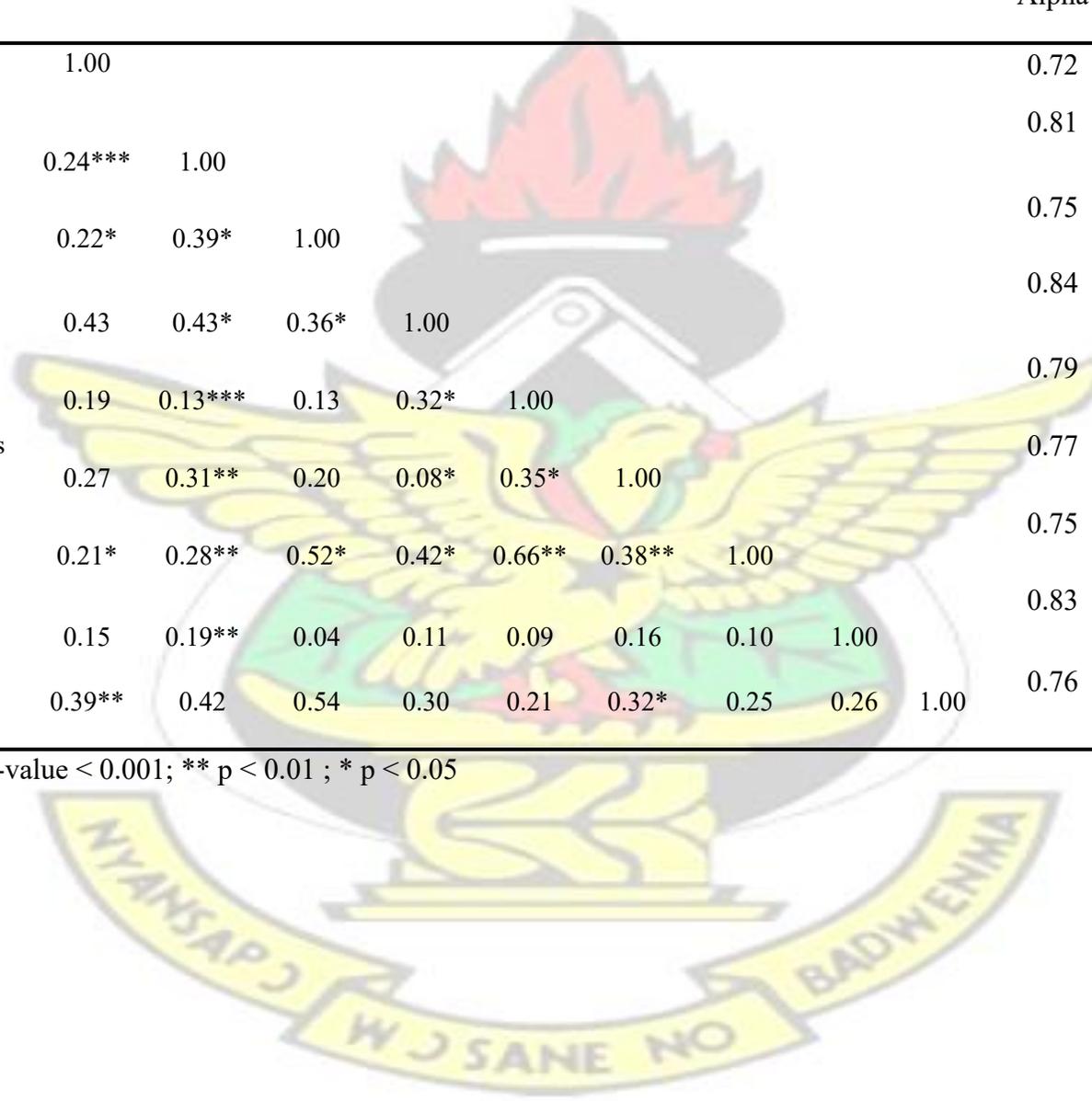
4.4 Correlation, Validity and Reliability Tests

The study uses Cronbach Alpha, Pearson Correlation, VIF and Tolerance levels to test the validity and reliability of 225 responses used for the study. Scholarly authors such as Saunders et al. (2009), Grønmo (2019), and Ghauri et al. (2020) argued that a study's data for the analysis is valid and reliable when the tolerance level is less than 2, Cronbach Alpha is more than 0.60, r-values of Pearson correlation is less than 0.65, and VIF is less than 4. They also stipulated any data or responses within these benchmark implies that there is no collinearity or multicollinearity among the variables. From Table 4.10 for the Correlation, Validity and Reliability, all the variables were within the benchmark given by prior researchers. Therefore, the study's data is valid and reliable. Data bias, multicollinearity or collinearity is not a problem for the study

Table 4.10: Correlation, Reliability and Validity

	1	2	3	4	5	6	7	8	9	Cronbach Alpha	Tolerance	VIF
1. Loans	1.00									0.72	0.855	1.130
2. Savings	0.24***	1.00								0.81	0.797	1.159
3. Insurance	0.22*	0.39*	1.00							0.75	0.719	1.185
4. Education	0.43	0.43*	0.36*	1.00						0.84	0.800	1.334
5. Gender	0.19	0.13***	0.13	0.32*	1.00					0.79	0.896	1.414
6. Managerial competencies	0.27	0.31**	0.20	0.08*	0.35*	1.00				0.77	0.747	1.536
7. Age	0.21*	0.28**	0.52*	0.42*	0.66**	0.38**	1.00			0.75	0.831	1.257
8. Industry	0.15	0.19**	0.04	0.11	0.09	0.16	0.10	1.00		0.83	0.864	1.137
9. Size	0.39**	0.42	0.54	0.30	0.21	0.32*	0.25	0.26	1.00	0.76	0.748	1.530

Significance level: *** p-value < 0.001; ** p < 0.01 ; * p < 0.05



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4.5 Regression and Discussion

Tables 4.11 and 4.12 represent the results of econometric models used to achieve the objectives of the study. Specifically, the four models were used to achieve the study's objectives to ascertain whether MFIs products - microloans, savings, insurance, and education, as well as control variables (gender, managerial competencies, owner's age, industry, and business size), affect small businesses performance. From Table 4.10, all four models R-squared and Adjusted R-squared more than 60% with the model's significance level less than 1%. The model's validity is ascertained because Saunders et al. (2009), Grønmo (2019), and Ghauri et al. (2020) argued that the Rsquared of a model greater than 60% with a p-value less than 5% is considered valid.

Table 4.11: Regression Results – Models 1 and 2

	Model 1				Model 2			
	β	SE	t	pvalue	β	SE	t	pvalue
Loans	0.319	0.201	1.587	0.210	0.203	0.103	1.970	0.064
Savings	0.423	0.199	2.126	0.001	0.307	0.120	2.558	0.000
Insurance	0.716	0.321	2.231	0.039	0.642	0.218	3.057	0.005
Education	0.690	0.329	2.097	0.000	0.717	0.263	2.726	0.001
Gender					0.112	0.091	1.230	0.211
Managerial competencies					0.216	0.120	1.799	0.000
Age					0.378	0.116	3.258	0.003
Industry					0.503	0.197	2.553	0.221
Size					0.382	0.200	1.910	0.022
_Constant	1.425	0.634	2.247	0.054	1.210	0.551	2.196	0.342
Obs.	225				225			
R-squared	0.72				0.79			
Adjusted R-squared	0.69				0.77			

Model Sig. 0.000 0.000

Dependent variable: Profit Levels

Table 4.12: Regression Results – Models 3 and 4

	Model 3				Model 4			
	β	SE	t	pvalue	β	SE	t	pvalue
Loans	0.527	0.325	1.621	0.000	0.497	0.213	2.332	0.000
Savings	0.216	0.078	2.769	0.125	0.205	0.098	2.091	0.084
Insurance	0.432	0.198	2.181	0.062	0.398	0.132	3.015	0.100
Education	0.516	0.287	1.797	0.003	0.489	0.291	1.680	0.000
Gender					0.287	0.124	2.314	0.214
Managerial competencies					0.425	0.298	1.426	0.005
Age					0.471	0.207	2.275	0.020
Industry					0.329	0.189	1.740	0.000
Size					0.453	0.221	2.049	0.004
_Constant	2.113	0.921	2.294	0.212	1.973	0.943	2.092	0.042
Obs.	225				225			
R-squared	0.81				0.83			
Adjusted R-squared	0.79				0.81			
Model Sig.	0.002				0.000			

Dependent variable: Sales Growth

From Model 1 in Table 4.11, without the control variables, the study reports that there is a positive and significant relationship between MFI products/services (savings, insurance and education) and the profitability (profit levels) of small businesses. However, for Model 2 (with the control variables); the study reports that savings, insurance, and education as well as managerial competencies, owner's age, and business size increase the profitability of small businesses.

From Model 3 (without the controls), where the dependent variable is sales growth, the result indicates only savings, and education affect the sales growth of small businesses in the Accra. When the control variables were included; savings, education, managerial competencies, owner's age, industry, and business size have a positive significant relation with the sales growth of the small businesses.

The positive significant relationship between micro-savings and insurance, and the performance of small businesses agrees with the extant literature of Alhassan et al (2016) but disagrees with Gyimah and Boachie's (2018) studies that report that savings and insurance of MFIs contribute to the performance of small firms. Also, the study reports a positive significant relationship between micro education and small business performance. The result for the nexus of education and the performance of small businesses affirms the study of Fauster (2014) that found a significant positive relationship between MFIs' education and small firm's performance. However, the study disagrees with the study of Kisaka and Mwewu (2014) who concluded that education provided by MFIs does not contribute to the performance of small businesses. From the above model's results, In conclusion, micro-loans affect the sales growth (or levels) but not the profit levels of small businesses. Also, micro-savings affect the profit levels but not the sales growth of small businesses in Accra. Moreover, the insurance from MFIs affects the profitability of small businesses in Accra, however, it has no significant influence on the sales growth of businesses. Lastly, education from MFIs increases both the sales and profit levels of small businesses in Accra. This clearly shows that financial literacy, educational seminars and training provided by MFIs such

as bookkeeping, financial management, etc. positively affect the performance of small businesses.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the findings of the analysis of results, the conclusion and the recommendations of the study.

5.1 Summary of Findings

The study examines the effect of microfinance products or services on the performance of small businesses in Ghana. Specifically, the study uses quantitative explanatory research to examine the nexus of MFI products or services (microcredit, savings, education, and insurance) including control variables such as gender, managerial competencies, owner's age, nature of business or industry, business size) on the performance of small businesses in Ghana. The study uses descriptive statistics (mean, standard deviation, minimum, and maximum scores) and inferential statistics such as Pearson Correlation Analysis, and multiple linear regression on a sample size of 225 responses to help achieve the study's objectives. The below subsections are the summary of the findings of the study.

5.1.1 Micro Loans and Performance

The first objective of the study is to examine whether microloan affects the performance of small businesses in Ghana. The descriptive statistics of the perceived constructs

indicate that MFIs can grant microfinance loans to small businesses within a reasonable period as compared to formal financial institutions. Also, the interest rate on the loans does not affect performance but long-term periods of repayment of interest on the loans taken from MFIs affect the performance of small businesses. From the multiple regression, the study shows that microloans do not affect the profitability levels of small businesses, however, they positively affect the sales growth of small businesses.

5.1.2 Micro Savings and Performance

The second objective is to investigate the effect of micro-savings on the performance of small businesses in Ghana. The descriptive statistics of the perceived statements show that the interest earned on the savings at MFIs contributes to small business performance. The interest earned on MFI savings affects the performance of small businesses, however, the various types of MFI savings accounts and the savings via mobile money do not affect the performance of small businesses. From the multiple regression, the model's results show that micro savings increases both the profitability and sales levels of small business. This is because there is a positive significant relationship between micro-savings and performance (profit levels or sales growth).

5.1.3 Micro Insurance and Performance

The third objective of the study seeks to find out whether micro-insurance affects the performance of small businesses in Ghana. The descriptive results show that the microinsurance provided by MFIs does not affect the performance of small businesses. For instance, business owners argue that the duration is taken to pay the insured amount when a risk happens, the insurance premium funds, and insurance funds do not affect

their performance. The model's regression results also report that there is no relationship between micro-insurance and sales growth of small businesses. However, there was a positive and significant relationship between MFI insurance and the profitability (profit levels) of small businesses.

5.1.4 Micro Education and Performance

The final objective assesses the effect of microfinance education on the performance of small businesses in Ghana. The descriptive statistics of the perceived statements on micro education show that MFI's education on proper investment, financial and/or accounting records, how to invest properly on credits or loans given, and how to manage business operations affect the performance of small businesses. This shows that regular financial literacy provided by MFIs affects the performance of small businesses. The regression model results (with or without control variables) show that there is a strong positive and significant relationship between micro-education and performance (both profitability and sales growth).

5.2 Conclusion

Extant literature on the nature, magnitude and balance of microfinance product's impact on small businesses is still scarce and inconclusive (Addai, 2017). This study extends existing studies by examining the nexus between MFIs products and the performance of small businesses in Ghana, where most small businesses depend on MFIs for survival. Using a quantitative approach to test valid responses of 225 business owners from Ghana, the study found that microloans affect sales growth (or levels) but not profit levels. Also, micro-savings affect the profit levels but not the sales growth and

the insurance from MFIs affects the profitability of small businesses in Accra, however, it has no significant influence on the sales growth of businesses.

Education provided by MFIs, on the other hand, increases both the sales and profit levels of small businesses in Ghana.

5.3 Recommendations

Based on the findings, the study recommends the following to nascent and prospective entrepreneurs, policymakers, government agencies, MFIs, investors, and other key stakeholders of small businesses in Ghana and beyond. Firstly, the study recommends that for the profit levels of small businesses to be increased, nascent and prospective entrepreneurs need to focus on MFI products or services such as savings, insurance, and education (seminars or training from MFIs). However, if entrepreneurs want to increase their sales volume, then they need to apply for MFI loans and attend educational seminars from MFIs. Secondly, MFIs should increase the insurance packages to business owners to trust and have some assurance of cash in case of any operative or natural disaster.

Thirdly, MFIs should continue to offer education to small businesses consistently geared towards the performance of small businesses. Moreover, MFIs and government agencies such as Microfinance and Small Loans Centre and National Board for Small Scale Industries should increase loan facilities including the duration of the loan, and the loan repayment should be spread over long periods. Entrepreneurs would have greater use of loans over a long period to acquire capital assets and technological

facilities/equipment that can help them grow. Finally, investors, entrepreneurs or small business owners should use the study's findings in making investment decisions.

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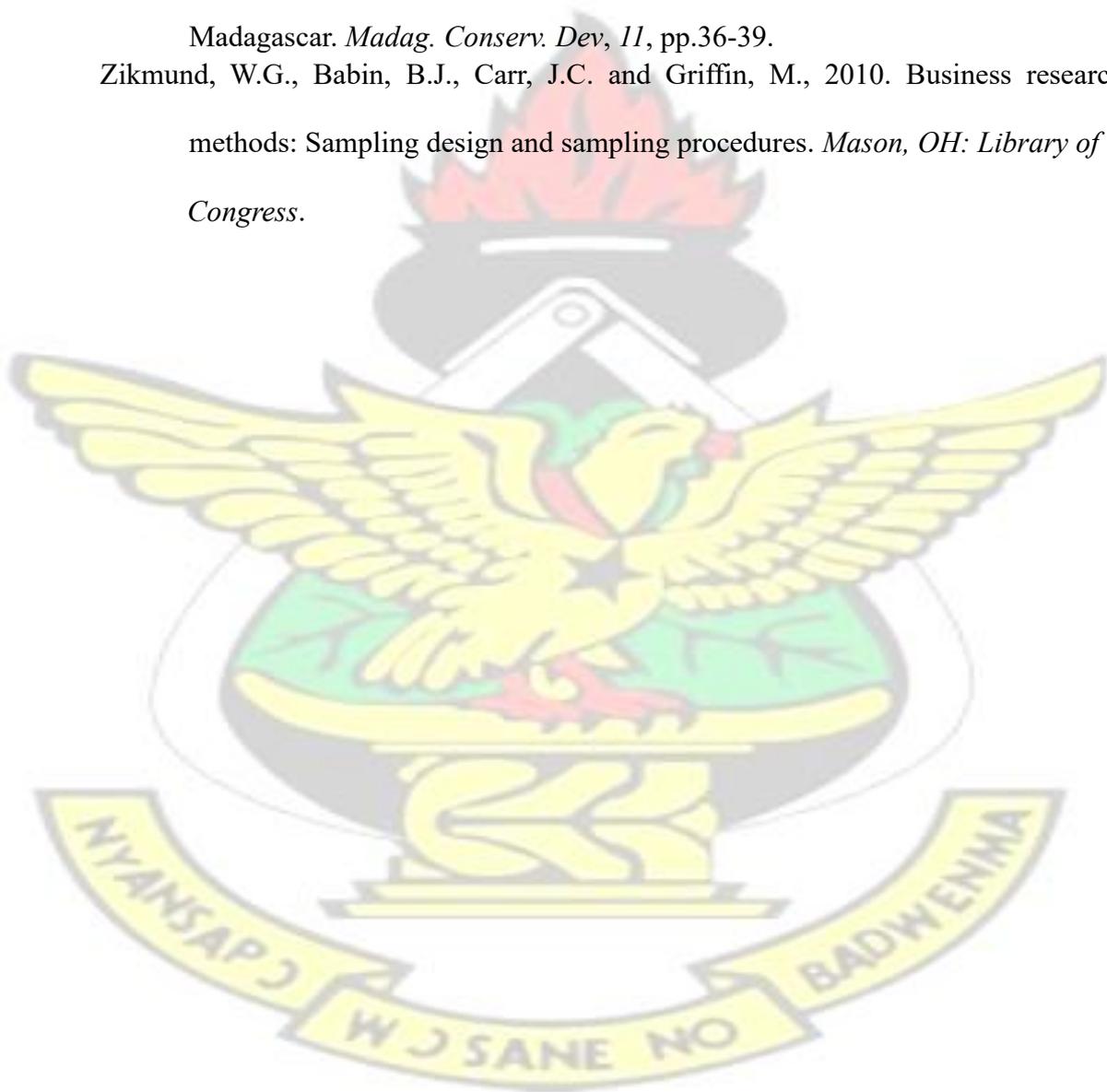
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KNUST

APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

INSTITUTE OF DISTANCE LEARNING (ACCRA)

QUESTIONNAIRE

INTRODUCTION

We are undertaking a study on the impact of microfinance institutions on the performance of small businesses. We would therefore be very grateful if you could offer us the necessary support by answering this questionnaire in the best possible means you can. We wish to assure you that the information gathered here will be used strictly for the study alone and thus kept confidentially. Please tick the appropriate box.

DEMOGRAPHIC DATA OF RESPONDENT

1. Gender

Male []

Female []

2. Educational background

None []

BECE []

WASSCE []

Diploma []

Undergraduate Degrees []

Post-graduate Degrees []

Others []

KNUST

3. Industry

Retail and Services []

Manufacturing []

Trade []

4. What is your age? years

5. What is the total workers of this business?

6. You have the adequate level of competencies and prior skills (or knowledge) in managing the affairs of this business.

Not competent []

Low competent []

Neutral []

Somehow Competent []

Highly competent []

INDEPENDENT VARIABLES

Please use these set of ratings to answer the questions below:

7 = Strongly Agree, 6 = Agree, 5 = Somewhat agree, 4 = Not Sure, 3 = Somewhat

Disagree, 2 = Disagree, 1. Strongly Disagree

	Perceived Statements – Micro Loans	1	2	3	4	5	6	7
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8	The period to receive microfinance loans affect the performance of the business.							
9	Microfinance loans with long term periods affect the performance of the business.							

10	Microfinance security requirements affect the performance of the business.							
11	Interest rate on microfinance loans affects the performance of the business							
12	Microfinance repayment period loans affect the performance of the business							
	Perceived Statements – Micro Savings	1	2	3	4	5	6	7
13	The minimum microfinance savings affect the performance of the business							
14	The interest rate on microfinance savings affect the performance of the business							
15	The various types of microfinance savings accounts affect the performance of the business							
16	Microfinance savings through mobile affect the performance of the business							
17	Microfinance savings service is important in the performance of the business							
	Perceived Statements – Micro Insurance	1	2	3	4	5	6	7

18	Microfinance insurance funds affect the performance of business							
19	Insurance premium funds affects the performance of business							
20	The duration taken to pay the insured amount when a risk happened affects the performance of business							
	Perceived Statements – Micro Education	1	2	3	4	5	6	7
21 D E	The regularity of microfinance education affect the performance of business.							
22 P E	Microfinance education on how to manage operations of business affect its performance							
N23 D E	Microfinance education on how to keep financial records of the performance of business							
24 N T	Microfinance education on how invest properly on credits given affects the performance of business.							
25 V	Microfinance education on proper investment areas affects the performance of business.							

DEPENDENT VARIABLES

Please use these set of ratings to answer the questions below:

7 = Strongly Agree, 6 = Agree, 5 = Somewhat agree, 4 = Not Sure, 3 = Somewhat

Disagree, 2 = Disagree, 1. Strongly Disagree

	Perceived Statements – Sales Growth	1	2	3	4	5	6	7
26	Capital realized in the year 2019 in terms of sales growth is more than the past 3 years because of the use of microfinance products or services.							
27	Sales have increased in the past 3 years because of the use of microfinance							

	products or services.							
28	Using microfinance services or products has increased the performance of business in terms of sales growth.							
	Perceived Statements – Profit levels	1	2	3	4	5	6	7
29	Profit is currently above the industry profits due to the use of microfinance products.							
30	Profit is within the industry average profit due to the use of microfinance products.							
31	Profit is below the industry average profit due to the use of microfinance products.							
32	The business is currently not making profit due to the use of microfinance products.							