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Access to External Finance by Micro Small and Medium Manufacturing Enterprises in Kumasi Metropolis: Evidence on the Impact of Financial Management Practices.

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Abstract

The aim of this study was to analyse how financial management practices of Micro, Small and Medium Manufacturing Enterprises (MSMMEs) affect access to external finance in Ghana. Specifically, the study analysed the effect of preparation and usage of financial information, business plan, capital budgeting and working capital management on access to external finance of MSMMEs in Ghana. The study employed Logistic regression on a sample size of 361 MSMMEs. The study found that MSMMEs' preparation and use of financial information, business plan and capital budgeting increase the probability of MSMMEs accessing external finance. It is recommended that MSMMEs incorporate good financial management practices in their operations in order to enhance their access to external finance.

Key words: Micro, Small and Medium Manufacturing Enterprises, Financial management practices, Access to finance, Logistic regression

1. Introduction

One of the major constraints identified as hindering the growth and development of micro, small and medium enterprises (MSMEs) is access to finance. Access to financing is consistently cited by MSMEs as one of the main barriers to growth (International Finance Corporation (IFC), 2009). According to Olawale & Asah (2011), one of the factors limiting the survival and growth of small and medium enterprises (SMEs) is non-availability of debt financing. There is considerable evidence to support the contention that MSMEs, in particular, face a number of obstacles and problems in accessing finance, mainly because of their limited resources and perceived risk by lenders (Cassar & Holmes, 2003; AfDB/OECD, 2005; Boachie-Mensah & Marfo-Yiadom, 2006; Beck, Demirguc-Kunt & Maksimovic, 2008; World Economic Forum, 2009; Mazanai & Fatoki, 2012). This is particularly problematic and worrisome for policy makers, given that MSMEs and entrepreneurship are widely recognized as being the key sources of dynamism, innovation and flexibility in the advanced industrialized economies, emerging markets and developing economies. Micro, small and medium enterprises are major net job creators in these economies (Organisation for Economic Co-operation and Development (OECD), 2006a; 2006b). The difficulty in accessing finance has been described as the most significant constraint facing MSMEs in both developed and developing countries (Mina, Lahr & Hughes, 2012; Beck, 2007; Cassell, 2006; Mensah, 2004). According to Lashitew (2011), lack of financial access is argued to be one of the most binding constraints for small firms, especially in developing countries. In a survey conducted by Beck (2007), access to and cost of finance were ranked among the most constraining features of the business environment of MSMEs.

In Ghana, access to finance continues to be a major problem confronting MSMEs. It was ranked as the most problematic factor in business operations in Ghana according to a Global Competitiveness Report 2010-2011 (World Economic Forum, 2010). Mensah (2004) asserts that there are many who believe that the single most important factor constraining the growth of the MSMEs sector is the lack of finance. A survey of small and medium-sized enterprises in Accra, Kumasi and Takoradi by Aryeetey *et al*., in 1993, cited in Aryeetey (1996) indicated that about 63 percent of the firms in the study applied for bank loans for their present businesses. On the average, firms applied at least twice for loans but only 50 percent had their loan applications approved. For micro enterprises, only 30 percent of applications were successful. Micro enterprises had to put in an average of three applications before one was successful. The Association of Ghana Industries (AGI) has documented access to finance as a major problem since 2010. According to the Association of Ghana Industries (AGI), cost of credit and access to credit remain the most critical factors limiting the growth of businesses operating in Ghana. Access to credit was ranked among the top six and cost of credit was ranked among the top three problems that firms face in doing business in Ghana (AGI, 2010).This trend has not changed. In 2016, access to finance was ranked fourth critical limiting factor of growth of businesses in Ghana in the first and second quarters of 2016 and third in the last quarter of 2016. In 2017, access to finance was ranked fifth in the first and fourth quarters of 2017 as the most limiting factor of growth of industries (AGI, 2016; 2017).

A number of demand-side factors have been put forward to explain the problem of access to external finance. They range from lack of interest on the part of MSMEs to seek external finance for fear of not able to obtain the needed finance, unwillingness to dilute control of ownership, lack of knowledge about the availability of funds, and information asymmetry as a result of absence of financial management practices. According to Karajkov, (2009) the lack of awareness, education, as well as the lack of interest by enterprises were found to constitute the demand-side factors which relevantly contributed to the current situation of the financing gap.

Zavatta (2008) asserts that the behavior of financial institutions is not the only reason why MSMEs have problems in accessing external finance. Firms also make decisions about financing and, therefore, constraints may also appear on the demand-side. Micro, small and medium enterprises have been reluctant to seek bank loans despite the various loan schemes being offered by the banks and the government because of the fear of their business being taken away in case of any problem to meet the agreed terms, collateral security, high interest rate and untimely delivery of credits (Olutunla & Obamuyi, 2008; Obamuyi, 2007).

Perception of managers of MSMEs can also influence access to finance. Entrepreneurs may not seek external finance if there are perceived issues. This could be either they think they will be unsuccessful so there is little point in applying or a perception that they will not have the information and good credit history that banks require. It may occur where entrepreneurs from certain groups, such as women or ethnic minority entrepreneurs distrust bankers and may perceive institutional bias in banking institutions (Roper & Scott, 2007; Deakins, North, Baldock & Whittam, 2008). One reason why MSMEs fail to access external finance is that they perceive they will not get it even when they apply for it because of their perception that suppliers of funds believe they do not have good financial management practices in place. A report for the Small Business Service by Allinson (2005 p.3) cited in Deakins, North, Baldock and Whittam (2008) commented: "*if people do not present themselves to a financial institution in the first place, because of self-selection and possibly underpinned by belief in a myth, then it may appear that the institutions' rates of granting loans are quite high – that they are meeting demand".*

The persistence of the problem of access to finance can be attributable to the fact that most MSMEs do not have good financial management practices in place and hence they are not investment ready. This results in a demand-side constraint. The demand-side constraints exist if entrepreneurs do not make use of existing financing opportunities, because of a shortage of good projects or lack of persuasive business plans (OECD, 2004). It may also be as a result of the unwillingness of entrepreneurs to access available funds for reasons such as losing control over their businesses, preferences, perception, knowledge and growth motives which can moderate and /or amplify the extent of financing constraints. As Zavatta (2008, p.4) puts it, *"indeed, while SME advocates loudly lament the inaccessibility of external finance, bankers and venture capitalists often decry the shortage of 'bankable' or 'investable' firms. One demand-side constraint has to do with the poor quality of projects submitted for financing, inability to make the best use of available opportunities and unwillingness of relinquishing control over the company to outsiders".*

Thus, it is asserted that when firms do not have good financial management practices in place it could lead to their unwillingness to access external funds as they believe their request may be turned down due to the problem of information asymmetry. It is therefore being argued that when firms put in place financial management practices, it will reduce the information asymmetry that characterizes the operations of MSMEs and also make them investment ready. Such firms will have the confidence to access external finance as they believe they will be successful. This study therefore seeks to assess whether firms that have put in place good financial management practices will be in a better position to access external finance. The rest of the paper is organized as follows: section 2 looks at the literature review and hypothesis formulation, section 3 looks at the methodology for the study, section 4 presents results and discussion and section 5 concludes the work and make recommendations.

2. Literature Review

2.1 The Financing Gap

The presence and nature of a 'finance gap' for small firms has been debated for decades, ever since the Macmillan Report in 1931. A financing gap generally refers to the difference between the demand for funds by MSMEs and the supply of funds (Park, Lim & Koo, 2008). Specifically, a financing gap is said to exist if firms that merit financing cannot obtain it in financial markets due to the existence of market imperfections on the supply side (OECD, 2006b) or peculiar characteristics of MSMEs (Park, Lim & Koo, 2008). Lean and Tucker (2000) assert that small firms have traditionally encountered problems when approaching providers of finance for funds to support fixed capital investment and to provide working capital for the firm's operations. According to Harvie (2010), the gap exists if particular categories of firms that ought to receive financing are systematically unable to obtain it, despite a willingness to pay higher interest rates, indicating market failure particularly if such lending opportunities are profitable. Thus, a financing gap occurs where a firm has potentially profitable investment opportunities but insufficient funds to exploit them (Cosh, Cumming & Hughes, 2009; Mina, Lahr & Hughes, 2013).

According to Sarapaivanich (2006) and Park et al (2008) the financing gap can be as a result of demand-side factors or supply-side factors. Park et al. (2008) also argue that the fundamental reasons behind SMEs' lack of access to funds can be combination of reasons originating from both the supply-side and demand-side. The supply-side constraints predominate if appropriate sources of finance are not available on terms and conditions suitable for innovative MSMEs (Sarapaivanich, 2006). Sonne (2010) therefore asserts that the financing gap is created by the reluctance of core or mainstream financial organisations such as banks to provide finance. The demand-side constraints exist if entrepreneurs do not make use of existing financing opportunities, because of a shortage of good projects or lack of persuasive business plans (OECD, 2004). It may also be as a result of the unwillingness of entrepreneurs to access available funds for reasons such as losing control over their businesses, preferences, perception, knowledge and growth motives which can moderate and /or amplify the extent of financing constraints. As Zavatta (2008, p.4) puts it, *"indeed, while SME advocates loudly lament the inaccessibility of external finance, bankers and venture capitalists often decry the shortage of 'bankable' or 'investable' firms. One demand-side constraint has to do with the poor quality of projects submitted for financing, inability to make the best use of available opportunities and unwillingness of relinquishing control over the company to outsiders"*.

A number of demand-side factors have been identified in literature as influencing access to finance by MSMEs. Storey (1994) identified the characteristics of the entrepreneurs, the characteristics of MSMEs, and the type of strategy associated with growth as key components to be important in analyzing access to finance by MSMEs. Roper and Scott (2007) identified firm characteristics as factors that influence access to external finance; Momani, Alsharayri and Dandan (2010) and Sorooshian, Norzima, Yusuf and Rosnah (2010) pointed out firm characteristics and entrepreneurial characteristics and Sarapaivanich (2006) also grouped the demand-side factors that affect access to finance into entrepreneurs characteristics, firm characteristics and information readiness. Olawale and Asah (2011) also pointed out that firm and entrepreneurial characteristics impact on access to finance by MSMEs. Ingólfsson (2011) asserts that demand-side factors provide an alternative explanation for the capital structure of firms and further indicates that demand-side factors can affect the propensity of a firm to apply for external financing. Pandula (2011) undertook an empirical investigation of small and medium enterprises' access to bank finance. The variables that were identified as influencing access to finance were firm characteristics, entrepreneur characteristics and financial characteristics.

A survey of the literature dealing with MSMEs financing indicates that there is a significant gap in the knowledge of the determinants of access to finance among MSMEs particularly in the developing countries (Sarapaivanich, 2006; Pandula, 2011), when it comes to financial management practices as a demand-side factor. There are a number of studies undertaken which investigated the demand-side factors of access to finance. For example, some studies built upon human capital theory have looked at the characteristics of the entrepreneurs such as education, age, work experience and social background of the owner when accessing credit from banks. Others have looked at firm characteristics such as size, age of the business, legal status and financial characteristics such as profit, fixed assets base while other studies have also looked at information characteristics such as financial statements and business plans. However, not much work has been done when it comes to financial management practices as a factor influencing access to external finance. The motivation for undertaking this study, therefore, is to fill the knowledge gap in the area of MSMEs financing in developing countries in general and Ghana in particular by investigating how financial management practices affect access to external finance by MSMEs in Ghana.

2.2 Financial Management Practices and Access to finance

The relationship between working capital management and profitability has well been documented in the literature. A study conducted by Moore and Reichert (1989) on firm performance and use of modern analytical tools and financial techniques revealed that firms adopting sophisticated capital budgeting techniques had an above average firm financial performance. A firm can sustain its business operations and meet its objectives if it effectively and prudently manages its financial practices. Raheman and Nasr, (2007) found firms that adopted modern inventory management techniques and Internal Rate of Return (IRR) reported superior financial performance, as compared to firms using methods such as Payback method and Accounting Rate of Return. In the study entitled "Effects of working capital management on MSE profitability in Spain", Garcia-Teruel and Solano (2007) identified an indirect relationship between working capital management and profitability of micro and small enterprises. Kitonga (2013) in his study on the relationship between financial management practices and financial performance in the shipping industry in Kenya found that holding all other things constant, the financial performance of the shipping industry in Kenya would be very abysmal without proper financial management practices. It was also found that, whereas financial management practices such as financial reporting analysis and working capital management practices each had a significant positive effect on companies' financial performance, with working capital management being the highest contributor, non-current asset management and capital structure management each had a negative effect on the financial performance of shipping companies (Kitonga, 2013). Turyahebwa, Sunday and Ssekajugo (2013) in their study in Western Uganda found financial management practices such as working capital management, financial reporting and analysis, investment practices and financing practices have positive impact on firm performance.

However, not much work has been done, particularly in Ghana, when it comes to how financial management practices impact on access to finance. The financial management variables identified as influencing access to finance, and discussed for the purpose of this study, include financial statement, business plan, capital budgeting and working capital management.

2.2.1 Financial statements

Financial information is very useful for MSMEs in accessing finance. Financial statement is especially required when MSMEs are seeking external equity, to ensure that investors are informed of events that may impact on their investment decisions (Holmes, Hutchinson, Forsaith, Gibson & McMahon, 2003). For example, in order to attract external equity funds such as angel financing and venture capital, MSMEs should be able to provide good financial records to demonstrate their potential for success (Mason & Harrison, 2001).

One of the reasons why small firms face more restrictive financing conditions than larger firms is because they fail to keep financial records which allow outside investors to assess their performance (Sarapaivanich, 2006). Kumar and Francisco (2005) argue that small firms face information opacity such as inability to provide financial information. When the firm is small, most of the time, it is owned and operated by the entrepreneur himself and there is no such legal requirement to regularly report the financial state of the firm and so many firms do not maintain audited financial statements. Thus, the absence of financial statements creates information asymmetry, whereby financial providers have less information about the financial circumstances and prospects of the firms than entrepreneurs. The result of information asymmetry between financial providers and small firms is the reduction in the willingness of financial providers to supply finance to the firms.

$H0_1$: Financial Information provision and usage do not increase MSMMEs' probability of access to external finance in Ghana.

2.2.2 Business Plan

According to United Nations Conference on Trade and Development ([UNCTAD], 2005), business plan is a crucial element in any application for funding, whether to a venture capital organization or any other investment or lending source. Therefore, it should be complete, sincere, factual, well-structured and reader-friendly. Mason and Stark (2004) assert that a business plan is the ticket of admission giving the entrepreneur his first and often only chance to impress prospective sources of finance with the quality of the proposal. The decision by the prospective funder whether to proceed beyond the initial reading of the business plan to consider the proposal in more detail will therefore depend on the quality of the business plan used to support the funding proposal. Most potential funders wish to see a business plan as a first step in deciding whether or not to invest. For example, more than three-quarters of business angels require a business plan before they will consider investing (Mason & Harrison, 2001).

A business plan plays a crucial role in the operations of firms especially start-up businesses. Barrow and Brown (1997) explain that the function of the business plan is to reduce risks as it helps the entrepreneur to determine definite market opportunities, potential team work, suitable marketing entry strategy and profitable ventures to operate. When an entrepreneur starts a business, there are a number of generic issues which have to be addressed, many of which are encompassed within the formulation of a business plan. Thus, a business plan when properly prepared should cover all aspects of the firm's operations. For a start-up business, the entrepreneur needs to research who the customers are, define strengths and weaknesses, spell out how particular products/services can meet customer needs, and define reasonable prices and what promotional strategies are needed to attract targeted customers (Southiseng & Walsh, 2010). A study of UK business angels reported that the main deficiencies in the proposals that they saw were, first, business plans which contained unrealistic assumptions or information that was not credible and second, entrepreneur/management teams which lacked credibility (Mason and Harrison, 2002). If an entrepreneur spends time developing a comprehensive business plan at an early stage in the project, risk perception will be reduced and the likelihood of obtaining capital will increase (Bollingtoft, Ulhoi, Madsen & Neergaard, 2003).

$H0_2$: Business plan preparation does not increase the probability that MSMMEs in Kumasi Metropolis will access external finance.

2.2.3 Capital Budgeting

Capital Budgeting is the process by which firms identify and prioritize profitable investment projects. Capital Budgeting is the process of planning capital investments, evaluating and selecting from a range of alternatives. Capital budgeting, which can be described as the formulation and financing of long-term plans for investment, is one of the most important responsibilities of the entrepreneurs of small manufacturing firms and it is the most important financial decision that face entrepreneurs of the small firms (Olawale, Olumuyiwa & George, 2010). Peel and Bridge (1998) as cited in Olawale (2012) note that capital budgeting and planning positively impact on the performance of small businesses. The results of a study by Olawale, Olumuyiwa and George (2010) indicate that the use of investment appraisal techniques has a positive impact on profitability. Frankly (2000) points out that the appraisal of new and existing capital investment projects is fundamental to the success of the small firm.

There are different techniques that can be used in the capital budgeting process. These include payback period, net present value, internal rate of return, accounting rate of return and profitability index. Olawale, Olumuyiwa and George (2010) found that small firms mostly do not make use of sophisticated investment appraisal techniques. Olawale (2012) contends that MSMEs engaged in detailed strategic planning are more likely to use formal capital budgeting techniques, including the net present value method, which is consistent with maximization of firm value. It is deduced from this that the way to maximize a firm's value is to make good and unbiased estimates of the present value of projects (Olawale, Olumuyiwa & George, 2010). If capital budgeting could have effect on the performance of firms, then firms that practise it are likely to access external finance as it would boost their chance of getting the finance they seek for. It is therefore being proposed that:

$H0_3$: The probability that MSMMEs in Kumasi will access external finance will not increase by capital budgeting practices of the firms.

2.2.4 Working Capital Management

Working capital management is the management of current assets and current liabilities (Gill, Biger & Mathur, 2010; Olawale, 2012) with the objective of reaching the right balance between profitability and liquidity (ALShubiri, 2011). The objective of working capital management is to maintain the level of net capital that maximizes the wealth of the firm's owners. Working capital management ensures that a firm has sufficient cash flow in order to meet its short-term debt obligations and operating expenses (Olawale, 2012). When any company manages its working capital well, it has every leverage opportunity to continue in business indefinitely both in profitability and in liquidity (ALShubiri, 2011). When MSMEs practise proper working capital management, it enhances their profitability. It therefore enhances their ability to access external finance as it sends a signal to fund providers that such firms are properly managed and in a position to make good any future obligations that fall due (Atrill, 2006). According to Atrill (2006), evidence shows that many MSMEs are not very good when it comes to managing their working capital and this has been a major cause of their high failure rate compared with that of large businesses. Atrill asserts that MSMEs often lack the resources to manage their trade debtors effectively. MSMEs also lack proper debt collection procedures, such as prompt invoicing and sending out regular statements. This tends to increase the risks of late payment and defaulting by debtors.

Most empirical studies relating to working capital management and profitability support the fact that proper working capital policies enhance profitability. Gill, Biger and Mathur (2010) investigated the relationship between the working capital management and firms' profitability for a sample of 88 American manufacturing companies listed on the New York Stock Exchange for the period of 3 years from 2005-2007. They found statistically significant relationship between cash conversion cycle and profitability, measured through gross operating profit and concluded that managers can create profits for their companies by handling correctly the cash conversion cycle and by keeping accounts receivables at an optimal level. Garcia-Teruel and Martinez-Solano (2007) investigated the effects of working capital management on the profitability of a sample of small and medium-sized Spanish firms. They collected a panel data of 8,872 small to medium-sized enterprises from Spain covering the period 1996-2002. The results demonstrated that managers can create value by reducing their inventories and the number of days for which their accounts were outstanding.

$H0_4$: Working capital management does not increase the probability of MSMMEs in Kumasi Metropolis to access external finance.

3. Methodology

3.1 Study Area

Kumasi Metropolis was purposively selected as the study area for this research. Kumasi was chosen for this study because it is noted for its good industrial and commercial activities According to the National Industrial Census, the Ashanti Region has a total population of 6,440 firms in the manufacturing sector (Ghana Statistical Service, 2006) with about 70 percent of all manufacturing establishments in the Kumasi Metropolis.

3.2 Sample and sampling technique

The target population for the study comprised 4400 MSMMEs in the Kumasi Metropolis in the data base of the Ghana Statistical Service as at December 2012. A sample size of 10 percent was chosen for the study. This study used a sample size of 10 percent of the target population. Amedahe (2002) suggests a minimum of 10 percent as ideal sample size for a study if the population is large and scattered.

This study used stratified random sampling technique to select the respondents. According to Groebner, Shannon, Fry and Smith (2000) stratified random sampling is a statistical sampling method in which the population is divided into homogeneous subgroups called strata so that each population item belongs to only one stratum. Stratification ensures that the sample is well spread out among the relevant subgroups. It also ensures that the sample will accurately reflect the population on the basis of the criteria used for the stratification (Zikmund, Babin, Carr & Griffin, 2010). MSMMEs in Kumasi, that were on the database of Ghana Statistical Service, was stratified based on size, according to the number of employees; micro enterprises (1-9), small enterprises (10-29) and medium enterprises (30-99). After the stratification, systematic random sampling method was used to select MSMMEs from each stratum to be included in the study.

3.3 Data and data collection

The main data for this study was primary data which was collected through a self-administered questionnaire. The data was collected from owners of MSMMEs or their representatives who are in charge of the financial decision of the firm through self-administered questionnaire. To ensure content validity, the questionnaire was given to experts in the area of MSMEs financing to give their views and suggestions to improve the questionnaire. To establish if the chosen instrument was clear and unambiguous and to ensure that the proposed study has been well conceptualized (Coughian, Cronin & Ryan, 2007); a pilot study was undertaken before the main study. The pilot test was conducted in Cape Coast, in the Central Region of Ghana, using MSMEs in the Cape Coast Metropolis. However, certain questions were modified after the pilot test. To test for reliability, Cronbach alpha coefficient was used. Mugenda and Mugenda (2003) recommend the use of internal consistency technique and the Cronbach's alpha method as a measure of reliability. A coefficient of 0.70 and above is acceptable as adequate to accept the research instrument as reliable (Van Saane, Sluiter, Verbeek & Frings-Dresen, 2003). A Cronbach coefficient of 0.87 and Cronbach Alpha based on standardized items of 0.88 were obtained when the data was run for reliability.

3.4 Data Analysis

Data was analyzed using both descriptive and inferential statistics. The descriptive statistics used were mainly used to analyze responses from the respondents. Descriptive statistics such as mean score, frequencies and percentages for each variable were calculated and tabulated. On the other hand, inferential statistics in this study involved the use of logistic regression to determine the effect of demand-side factors on access to external finance. Because of the dichotomous nature of the dependent variable (access to finance), logistic regression was used for inferential data analysis to establish effects of the predictor variables on the criterion variable. Logistic regression analysis is a non-linear method of modelling for dichotomous dependent variables (Liou, 2008). The logistic regression model that was used for the study is expressed as:

$$\ln\left(\frac{P}{1-P}\right) = \beta_0 + \beta_1 \mathrm{FinState} + \beta_2 \mathrm{BPlan} + \beta_3 \mathrm{CapBud} + \beta_4 \mathrm{WCMgt} + \varepsilon$$

Where FinState = financial statement, BPlan = business plan, CapBud = capital budgeting and WCMgt = working capital management, B_0 = Intercept Term, B_{1-4} = Logistic regression coefficients for predictor variables and ε = Error Term Include the subscripts of the variables and include the proxy for the dependent variable access to finance.

4 Results and Discussion

4.2 Descriptive Statistics

Four financial management practices were identified to influence access to external finance by MSMEs. These are preparation and usage of financial information, business plan, capital budgeting and working capital management. The descriptive statistics of these variables are discussed in sequence.

4.2.1 Financial Information

The descriptive statistics of responses to questions related to financial information are presented in Table 1. Table 1 indicates that 41.60 percent of the respondents prepared financial information in the form of income statement, statement of financial position, statement of cash flow, cash budget, variance analysis or financial ratios.

Table 1: Preparation and Usage of Financial Information

	Preparation		Usage	
	Frequency	**Percentage**	**Frequency**	**Percentage**
Yes	150	41.60	150	100.0
No	211	58.40	0	0.00
Total	**361**	**100.00**	**150**	**100.00**

Source: Fieldwork (2013)

However, majority of the MSMMEs in the study (58.40 percent) did not prepare any form of financial information. All the respondents who said they prepare financial information indicated they use it in one way or the other. According to data collected, 34.06 percent of entrepreneurs prepared financial information for making business decision. This is followed by 23.88 percent who indicated that they prepared financial information as a management tool. A little above 23 percent prepared this information for tax purposes. Around 19 percent of entrepreneurs who prepared financial information used this information to support their access to finance. The reasons why entrepreneurs used financial information to support their business decisions are summarized in Table 2. Table 2 shows that the main reason why entrepreneurs used financial information was because it provided useful information for decision making (mean=4.06 and standard deviation of 1.075).

Table 2: Uses of Financial Information

Reasons	Do not agree	Slightly agree	Moderately agree	Highly agree	Strongly agree	Mean	Std. Dev.
It provides useful information for decision making	4.2	4.8	15.2	32.6	43.2	4.06	1.075
Financial information is available	5.5	8.7	27.8	22.0	35.9	3.74	1.192
Financial information is accurate	4.9	9.7	30.7	19.1	30.5	3.71	2.377
Financial information is up to date	5.5	15.2	22.0	16.8	40.5	3.72	1.285
Financial information contain adequate information needed	4.6	8.2	22.7	27	37.5	3.85	1.151

Source: Fieldwork (2013)

This next important reason for using financial information was that it provided adequate information needed (mean=3.85 and standard deviation=1.151), with 37.5 percent of respondents who strongly agreed and 27 percent who highly agreed with that statement. These findings suggest that entrepreneurs used financial information because they realized the usefulness of financial information in supporting their business decisions. About 43.2 percent of respondents strongly agreed and 32.6 percent highly agreed to the statement that financial information provides useful information for decision making. The standard deviations show that there was high variability in response especially for ‘financial information is accurate’. This indicates that respondents were not in unison with regard to whether they used financial information because it was accurate.

Entrepreneurs who prepared financial information were asked to indicate the level of importance they attached to various pieces of financial information. Table 2 shows that entrepreneurs considered cash budget as the most important financial information with a mean index of 3.80 and standard deviation of 1.399, followed by statement of financial position (mean=3.77 and standard deviation of 1.475).

Table 3 presents the importance of financial information to MSMMEs in the Kumasi Metropolis. From Table 3, 46.5 percent of respondents rated statement of financial position as extremely important followed by cash budget which was rated as extremely important by 45 percent of the respondents. However, variance analysis (mean=2.65 and standard deviation=1.511) and financial ratios (mean=2.68 and standard deviation=1.512) received the lowest rating as 34.9 percent of respondents classified variance analysis as not important and 31.8 percent rated financial ratios as not important. This may be due to the fact that MSMEs do not make use of these two types of financial information in their operations. The standard deviations compared to the mean for all the financial information show there was high variability in response for all the financial information. This indicates that respondents were not in unison with regard to the usefulness of financial information.

Table 3: Importance of Financial Information

Financial Statement	Not Important	Slightly Important	Moderately Important	Highly Important	Extremely Important	Mean	Std. Dev.
Income statement	16.4	5.9	8.5	31.7	37.5	3.68	1.441
Statement of financial position	16.4	5.0	9.1	24.0	46.5	3.77	1.475
Statement of cash flow	14.3	6.3	10.8	28.4	40.4	3.74	1.409
Cash Budget	13.6	3.8	16.3	21.3	45.0	3.80	1.399
Variance analysis	34.9	13.4	22.7	9.7	19.3	2.65	1.511
Financial Ratios	31.8	18.2	22.4	5.8	21.8	2.68	1.512

Source: Fieldwork (2013)

Quality of financial information is indicated in Table 4. Quality of financial information was measured in two dimensions: accuracy and completeness and timeliness. Table 4 shows that budgets (mean= 3.94 and standard deviation= 1.012) and statement of cash flow (mean=3.88 and standard deviation=0.978) were the first two forms of financial information that entrepreneurs classified as the most accurate and complete and timely. Financial information with least qualities in terms of accuracy and completeness and timeliness were variance analysis and financial ratios.

Table 4: Qualities of Financial Information

			Accuracy and completeness		Timeliness	
	Minimum	Maximum	Mean	Std. Deviation	Mean	Std. Deviation
Income statement	1	5	3.72	1.057	3.78	1.020
Statement of financial position	1	5	3.72	1.127	3.75	1.169
Statement of cash flow	1	5	3.82	1.113	3.88	.978
Budget	1	5	3.84	.979	3.94	1.012
Variance analysis	1	5	2.69	1.456	3.11	1.298
Financial Ratios	1	5	2.68	1.337	3.12	1.361

Source: Fieldwork (2013)

The reason may be because entrepreneurs do not have the expertise required in preparing and using these pieces of financial information. The standard deviations relative to the means suggest consistency in responses to statement of cash flow followed by budget and income statement. However, the standard deviations for financial ratios and variance analysis show there was high variability in responses. This indicates that respondents were not in unison with regard to the qualities of these two financial statements.

4.2.2 Business Plan

The respondents were asked to indicate whether they prepare a business plan to support their business operations or not. From Table 5, 209 respondents representing 57.9 percent indicated they had prepared a business plan to support the operations of their businesses. Forty-one percent indicated they had never prepared a business plan to support their operations.

Table 5: Business Plan Preparation

	Frequency	Percentage
Does the firm Prepare Business Plan?		
Yes	209	57.90
No	148	41.00
No response	4	1.10
Total	**361**	**100.00**
Who prepares the Business Plan?		
Self	167	80.30
Consultant	26	12.50
Others	16	7.20
Total	**209**	**100.00**

Source: Fieldwork (2013)

From Table 5, 80.30 percent of the respondents prepared the business plan themselves. Some respondents engaged the services of consultants (12.50%) while the remaining 7.20 percent did the business plan through other people such as friends, relatives and business partners.

The study also investigated the reasons why a firm may have to prepare a business plan. From Table 6, the major reason why business plan was prepared was for business expansion with a mean index of 4.40 and a standard deviation of 0.813. As shown in Table 6, 56.1 percent of respondents strongly agreed with the fact that business plan was prepared for the purpose of business expansion. The second reason for preparing business plan was to serve as a guide for business operation (mean=4.21 and standard deviation=1.014) and 54.3 percent of respondents strongly agreed with this statement. The next reason why a business plan was prepared was to start a business (mean=4.20 and standard deviation=1.023). The standard deviations for business expansion of 0.813 relative to the mean of 4.40 showed little variability in responses, adding to the credibility of the conclusion that it is the most important reason for preparing business plan. The two reasons relating to access to finance were ranked lower.

Table 6: Purpose for Preparing Business Plan

Purpose	Do not agree	Slightly agree	Moderately agree	Highly agree	Strongly Agree	Mean	Std. Dev.
For starting a business	2.6	4.6	14.9	26.1	51.7	4.20	1.023
For business expansion	1.1	1.1	10.8	30.9	56.1	4.40	.813
As a guide for operation	1.4	5.7	17.3	21.3	54.3	4.21	1.014
For soliciting funding	6.3	7.1	16.5	34.9	35.2	3.86	1.161
As a requirement by fund providers	11.6	19.7	21.4	17.1	30.1	3.34	1.387

Source: Fieldwork (2013)

Preparation of a business plan as a requirement by fund providers was ranked last with a mean index of 3.34 and a standard deviation of 1.161; followed by business plan as a tool for soliciting funding (mean=3.86 and standard deviation= 1.387). The standard deviation for business plan as a requirement by fund providers (1.387) relative to the mean indicates high variability in responses to this statement as a reason for preparing business plan.

4.2.3 Capital Budgeting

According to Olawale, Olumuyiwa and George (2010), capital budgeting is one of the most important responsibilities of the entrepreneurs of small manufacturing firms and it is the most important financial decisions that face entrepreneurs of small firms. It is therefore expected that MSMEs will make use of it when undertaking long-term investment which involves huge financial outlay. Respondents were asked to indicate how often they use four capital budgeting techniques: payback period, accounting rate of return, net present value and internal rate of return in their investment decisions. From Table 7, majority of the respondents had never used any capital budgeting techniques in their investment decision. Whereas 78.10 percent of the respondents indicated they had never used the payback period, 81.40 percent, 81.20 percent and 86.40 percent respectively indicated they had never used accounting rate of return, net present value and internal rate of return. The result shows that only 3.60 percent, 1.40 percent, 1.90 percent and 5.0 percent of the respondents always used payback period, accounting rate of return, net present value and internal rate of return respectively.

Table 7: Use of Capital Budgeting Techniques

	Payback Period		**Accounting Rate of Return**		**Net Present Value**		**Internal Rate of Return**	
	Frequency	**Percent**	**Frequency**	**Percent**	**Frequency**	**Percent**	**Frequency**	**Percent**
Never	282	78.10	294	81.4	293	81.20	312	86.40
Seldom	4	1.10	6	1.70	4	1.10	12	3.30
Sometimes	44	12.20	39	10.80	38	10.5	14	3.90
Almost Always	18	5.00	17	4.70	19	5.30	5	1.40
Always	13	3.60	5	1.40	7	1.90	18	5.00
Total	**361**	**100.00**	**361**	**100.00**	**361**	**100.00**	**361**	**100.00**

Source: Fieldwork (2013)

4.2.4 Working Capital Management

Working capital management deals with how firms manage current assets and current liabilities (Olawale, 2012). Two areas of working capital that were investigated were credit sales and cash management. Table 8 shows issues relating to credit sales. When the respondents were asked to indicate whether they sell on credit or not, 220 respondents (60.90%) indicated that they sell on credit. From Table 8, the remaining 39.10 percent indicated they did not sell on credit. Table 8 indicates the proportion of sales that were made on credit. Thirty five percent of the respondents sold between 1-10 percent of their stock on credit basis. Those who sold between 11-20 percent of their stock on credit constituted 32.27 percent. The rest were 28.64 percent for those who sold between 21-30 percent of their stock on credit, 2.27 percent for between 31-40 percent and 1.82 percent for those whose credit sales exceeded 40 percent of total sales. Table 8 also shows the reasons why firms sold on credit. The major reason for selling on credit was to attract more customers (34.16%). Other reasons given by the respondents for selling on credit were to increase sales (27.08%), because of competition (23.01%) and to enhance profitability (15.75%).

Table 8: Credit Sales

	Frequency	Percent
Yes	220	60.90
No	141	39.10
Total	**361**	**100.00**
Proportion of Sales on Credit		
1-10%	77	35.00
11-20%	71	32.27
21-30%	63	28.64
31-40%	5	2.27
Above 40%	4	1.82
Total	**220**	**100.00**
Reasons for Selling on Credit		
Increase Sales	153	27.08
Competition From Others	130	23.01
Enhance Profitability	89	15.75
Attract More Customers	193	34.16
Total	**565**	**100.00**
Debtors Collection Period		
One week	100	45.50
Two weeks	68	30.90
One month	46	20.90
Two months	6	2.70
Total	**220**	**100.00**
Type of Bank Account Operated		
Savings	92	35.11
Current	154	58.78
Fixed deposit	16	6.11
Total	**262**	**100.00**

Source: Fieldwork (2013)

The last issue discussed under credit sales was how long it took firms to collect their money from debtors. From Table 8, majority of the respondents took one week to collect money on credit sales (45.50%). This is followed by firms which collected their money from debtors in two weeks (30.90%). Forty-five respondents (20.90%) indicated that they collected their money from debtors within one month while only 2.70 percent of the respondents took two months to collect credit sales. The second aspect of working capital management was how firms managed their cash. Respondents were asked to indicate whether their firm has its own bank account and the type of account they operated. From the responses, majority of MSMMEs in the study had their own bank account (72.69%). However, 27.40 percent of the firms did not have their own bank account. Those who had bank account indicated they operated savings account (35.11%), current account (58.78% or fixed deposit (6.11%).

4.3 Logistic Regression and hypotheses testing

A logistic regression analysis was conducted to predict accessibility of external finance for 361 micro, small and medium manufacturing enterprises in the Kumasi Metropolis using financial management practices as the predicator. Before the regression analysis was conducted a number of tests were undertaken. A multicollinearity test of the model showed there was no collinearity among the predictor variables (see appendix) as all the variance inflation factor (VIF) values were less than 10 and the Tolerance statistics greater than 0.10. A test of the full model against a constant (intercept) only model was statistically significant, χ^2 (*df* = 5, N = 361) = 36.634, p < 0.000. The model was able to correctly classify 81.5 percent of entrepreneurs who did not get access to external finance and 37.2 percent who got access to external finance, for an overall success rate of 65.7 percent. Nagelkerke's R^2 of 0.132 indicated a fairly weak relationship between prediction and the grouping (see appendix). The inferential goodness-of-fit test using the Hosmer–Lemeshow (H–L) yielded a χ^2 (8) =15.758, and was insignificant (p=0.05) suggesting that the model was fit to the data well. Table 9 shows the logistic regression coefficient, Wald test, and odds ratio {Exp (B)} for each of the predictors (financial information, business plan preparation, capital budgeting technique and working capital management (credit sales and bank account)).

The first hypothesis of the study was "*Financial Information provision and usage do not increase MSMMEs' probability of access to external finance in Ghana*". Employing a 0.05 criterion of statistical significance, financial information preparation, made significant contribution to prediction (p=0.036). The hypothesis for the preparation of financial information was not supported and was therefore rejected, as the p-value (p=0.036) revealed that there is a relationship between the preparation of financial information and accessibility to external finance. This value showed that the preparation of financial information has significant effect on access to external finance. The odd ratio {Exp (B)} for financial information indicated that an entrepreneur who prepared financial information was 1.696 times more likely to access external finance than an entrepreneur who did not prepare and use financial information, having allowed for business plan preparation, capital budgeting technique, working capital (credit sales) and working capital (bank account). This finding was similar to that of Olawale and Asah (2011) who found significant relationship between financial information and access to credit with odd ratio of 6.11(p=0.03). According to Kitindi, Magembe and Sethibe (2007), creditors, banks and other lenders use financial information provided by firms to analyze their present performance and predict future performance. Sarapaivanich and Kotey (2006) point out that the lack of adequate financial information leads to information asymmetry and credit rationing.

Table 9: Logistic Regression for Effect of Financial Management Practices on Access to external Finance

Predictor	B	Wald χ^2	P-Value	Odds Ratio
Financial information	.529	4.403	.036	1.696
Business Plan	1.080	14.806	.000	2.944
Capital Budgeting	-.911	14.015	.000	.402
Working Capital management (Credit Sales)	-.338	1.971	.160	.713
Working Capital management (Bank Account)	.062	.048	.827	1.063
Constant	-1.056	15.203	.000	.348

The second hypothesis was to determine if business plan preparation increases the probability that MSMMEs in Kumasi Metropolis will access external finance. The p-value of 0.000 indicates that there is significant relationship between business plan preparation and access to external finance. The hypothesis for the preparation of business plan was therefore rejected, as the p-value (p=0.000) revealed that there is a relationship between the preparation of business plan and accessibility to external finance. This value showed that the preparation of business plan has significant effect on access to external finance. The odd ratio for entrepreneurs who prepared business plan revealed that an entrepreneur who prepared a business plan was 2.944 times more likely to access external finance than an entrepreneur who did not prepare a business plan. With regards to business plan the result was in line with that of Olawale and Asah (2011) who found that new SMEs that were able to produce business plan (OR= 6.62, p-value = 0.01) were significantly more likely to be successful in their credit applications. The result was also consistent with the findings of Kitindi, Magembe and Sethibe (2007) and Pretorius and Shaw (2004) that the availability of business plan positively impacts on the availability of debt financing. According to Kitindi, Magembe and Sethibe (2007) trade creditors use business plans to evaluate the ability of SMEs to meet repayment of credit obligations. Pretorius and Shaw (2004) contend that a good business plan is perceived as one of the most essential documents to be prepared by the SME.

The hypothesis for the use of capital budgeting technique was not supported. The p-value (p=0.000) revealed that there is a statistically significant relationship between the use of capital budgeting technique and accessibility to external finance. This value showed that the use of capital budgeting technique has significant effect on access to finance external. The odd ratio for the usage of capital budgeting technique revealed that an entrepreneur who used capital budgeting technique was 0.402 times much likely to access external finance having allowed for financial information preparation, business plan preparation and working capital management.

The hypothesis for working capital management (credit sales and bank account), however, was supported as the p-values (0.160 and 0.876 respectively) indicated that there is no relationship between working capital management (credit sales and bank account) and accessibility to external finance. These values showed that working capital management has no significant effect on access to external finance. The odd ratio for working capital (credit sales) although not statistically significant (p-value = 0.160) revealed that an entrepreneur who sold on credit was 0.713 times likely to get access to external finance than the entrepreneur who did not sell on credit having allowed for financial information preparation, business plan preparation, and working capital management. The odd ratio for working capital management (bank account) although not statistically significant (p-value = 0.827) indicated that a firm that had its own bank account was 1.063 more likely to get access to external finance that a firm that did not have its own bank account having allowed for financial information preparation, business plan preparation, credit sales and capital budgeting.

5. Conclusion

Financial management practices exerted significant influence on MSMMEs access to external finance. The study found preparation of financial information, preparation of business plan and capital budgeting as significantly influencing the probability that MSMMEs will access external finance. Though not statistically significant, having a bank account was found to influence access to external finance as firms that had their own bank account were more likely to access external finance than firms which did not have their own bank account. The findings show how significant financial management practices affect access to external finance. It is therefore important for MSMEs to take seriously financial management practices if they are to perform well and hence, have access to external finance. It is recommended that firms should incorporate good financial management practices such as preparation, usage of financial information in their operations and business plans in their operations as these financial management practices impact positively on access to external finance.

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