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Investigating Into Factors Affecting Entrepreneurial Financing in Ghana

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Abstract:
This study seeks to look into the factors that affect entrepreneurial financing in the Ghanaian context. From review of relevant literature, Entrepreneur's Accomplishments, Investor's Perceived Risk, Technology, Venture Anticipated Growth Rate and Investor's Required Rate of Return were identified as some of the factors that influence entrepreneurial financing around the globe. As a result, these factors were discussed in the paper and used as the independent variables in the research, with entrepreneurial Financing in Ghana being the dependent variable. Quantitative approaches were used for data collection. Responses from prospective entrepreneurs (students), established entrepreneurs and investors (commercial banks, microfinance, and savings and loans and 'angel' investors) were gathered. The finding in this research shows thatVenture Anticipated Growth Rate, Investor's Required Rate of Return and Technology were significant predictors of entrepreneurial Financing in Ghana. As a result, entrepreneurs may consider fusing technology in their businesses. Also, to make it easier for entrepreneurs to obtain finance, it is recommended that they venture into businesses with high growth rate potential, promising better return on investment.

Keywords: *Entrepreneurial financing, entrepreneur's accomplishments, investor's perceived risk, technology, venture anticipated growth rate, investor's required rate of return*

1. Introduction

Entrepreneurship refers to the process of creating a new economic entity which is centred on a novel product or service that differs significantly from other products or services currently offered in the market (Henry, Hill & Leitch, 2005). Entrepreneurship has been characterized as the engine of economic growth and development since its successful nurturance can contribute positively to a nation's sustainable development (Morris & Lewis, 1991). Asidentified by Brooks, Huang, Kearney and Murray (2014), entrepreneurial start-up ventures accounts for approximately 20% of the United States annual job creation and this reiterate the boost it give an economy.

Indeed, entrepreneurship has been globally acknowledged as a lucrative source of economic development (Rebecca & Benjamin, 2009). The contribution of entrepreneurship to the fight against poverty and unemployment and economic transformation and technological development cannot be overemphasized (Rebecca & Benjamin, 2009; Kolawole&Torimiro, 2005; Christopher & Erik, 2003). It is against this backdrop that countries across the globe such as U.S.A, UK, Malaysia, Indian, China, Singapore, Thailand, Vietnam, Nigeria and a host of others continue to nurture entrepreneurial culture and spirit (Lucky, 2012). For instance, financial assistance for entrepreneurs has been recognized to be high on the agenda in the European Union where member states are encouraged to promote the availability of capital financing for entrepreneurs (OECD, 2004). This goes to illustrate the sense of urgency and importance that countries across the globe accord to entrepreneurship. This has further accorded the field of entrepreneurship with an enviable popularity both in the developed and developing countries as well as in academic and non-academic circles.

Admittedly, any business trajectory has financing as one its strong pillars if it is to survive. However, the situation in the field of entrepreneurship remains alarming. According to Kerr and Nanda (2009), gaining adequate access to capital remains one of the major hurdles to starting and growing a new business. But access to finance is a key determinant for entrepreneurial start-up, growth and development (Bunyasi, Bwisa&Namusonge, 2014). Without access to finance, most of the innovative and creative ideas of entrepreneurs will never materialize. Consequently, most would-be entrepreneurs remain at the ideation stage simply because of their inability to mobilize finance and other needed resources. In the same vein, other prospective and current entrepreneurs are unable to strategically position themselves well for easy access to finance. They might have the idea but luck basic knowledge on how to market the idea to prospective investor. This implies they are not able to convince the investors well to buy into their innovation and vision. This study is to investigate the factors accounting for the challenges in entrepreneurial financing and to make recommendations to offset these challenges.

2. Problem Statement

Myriads of entrepreneurs across the globe annually make the decision to start their own business. Incidentally, more than half of these new businesses have been tipped to disappear within the first five years of operation and one of the factors that stand tall and responsible for these windups is shortage of funds (Mason, 2009). This makes the issue of entrepreneurial financing an unescapable challenges which needs to be faced head-on.

Again, unlike SME's that usually replicate existing successful models which can be easily comprehended by investors as a results of their positive track record, entrepreneurship demands the vision and creativity or innovation for one to carve a niche for him or herself in the field one is venturing into and this might not come with a positive track record. This places a huge burden on entrepreneurs to properly sell their vison or creative ideas in order to secure loans or find risk capital.In the earliest stages of setting up the business, the tendency to attract or secure investors for one's entrepreneurship is essential since new businesses ventures need funding to survive. The situation for existing high potential ventures is also the same as they will also need financial capital to grow and succeed.

It becomes imperative to understand the factors and investment decisions that contribute to entrepreneurial financing in Ghana. This will be a crucible for prospective entrepreneurs as well as well-established entrepreneurs to learn from in order to strategically position themselves to access financial assistance when necessary. The government will also be informed about the entrepreneurial financing environment and intervene to ease the entrepreneurial culture and spirit in Ghana.

3. Research Objectives

The main objective of this study is to assess the factors affecting entrepreneurial financing in Ghana. More specifically, this research intends to achieve the following objective.

1. To assess the impact of entrepreneur's accomplishments, investor's perceived risk, Technology, venture anticipated growth rate and investor's required rate of return on entrepreneurial financing.

4. Research Question

To achieve the objective above the following question will be posed;

1. What is the impact of entrepreneur's accomplishments, investor's perceived risk, Technology, venture anticipated growth rate and investor's required rate of return on entrepreneurial financing?

5. Literature Review

The plethora of literature on entrepreneurship has enumerated a number of factors that affect entrepreneurial financing in the global landscape. These are as presented below;

5.1. Entrepreneur'sAccomplishments and Entrepreneurial Financing

To begin with, the significance of entrepreneurial accomplishments as a precursor to aiding entrepreneur's secure loans for their ventures is very huge. This is because, an entrepreneur's accomplishment serves as a verifiable trail that can motivate creditors that their money would be used judiciously (Benoit, 2010). This indicates that whether an entrepreneur is seeking for a small loans to start a new venture or expand their existing one, there is the need for them to strategically organize their documents to highlight their successes (Benoit, 2010).

5.2. Investor's Required Rate of Return and Entrepreneurial Financing

The returns that an investor expects to recuperate from his investment is another pivotal factor that impacts on entrepreneurial finance. Rate of investment can be simply explained as any gains or losses an investor make over a specified period of time. Usually, rate of returns is computed as a percentage of the cost of investment. Research indicates that, investors are confident and willing to finance business ventures that has a higher rate of returns or gains (Benoit, 2010; Smith, Smith & Bliss, 2011; Poser, 2012).

5.3. Investor's Perceived Risk and Entrepreneurial Financing

Investor's perceived risk has also been recognized to immensely impact on entrepreneurial financing (Olson, 1997; Vlaev, Chater& Stewart, 2009). The concept of risk perception has been identified to mean loss of capital, returns below expectationandeconomic uncertainty to investors whenever they are asked about it (Olson, 1997; Vlaev, Chater& Stewart, 2009). Smith, Smith and Bliss (2011) has also noted that businesses that are successful at the first stage (start-up) are usually favoured when securing finance for the next stage of expansion due to reduced risk. Owing to the success story that embodies such enterprises, investors are usually willing to invest in order to recuperate a higher rate of returns. However, business ventures characterised by unsuccessful trajectory repel investors since the envisaged rate of returns is lower.

5.4. Venture Anticipated Growth Rate and Entrepreneurial Financing

Another important factor that impacts on entrepreneurial finance is venture anticipated growth rate. Venture anticipated growth rate denotes the perception of progress or development investors have about a business venture. The higher the anticipated growth rate, the more promising investors perceive the business to develop. For an entrepreneurial venture to be attractive to creditors, it must promise high growth rate in the business plan to justify investment (Poser, 2012).

5.5. Technology and Entrepreneurial Financing

The role of technology in our daily life has grown exponentially over the years. This usually takes the form cell phone usage through to computer usage. In the same vein, fusion of Information Technology (IT) with business has been identified to fuel business growth and development and improved customer satisfaction (Munoz, Sanchez de Pablo, Pena & Salinero, 2016). It is therefore anticipated that investors will be much more interested to finance entrepreneurship that incorporate innovation and technological known how in terms of communication with customers and advertisement.

In a nutshell, the preceding literature review revealed that the factor that account for entrepreneurial financing across the globe to include Entrepreneur's Accomplishments, Investor's Perceived Risk, Technology, Venture Anticipated Growth Rate and Investor's Required Rate of Return. Despite the global acceptability of these factor, it should be noted that they were identified by researches conducted in well developed economies. It is therefore unclear whether the same factors influence entrepreneurial finance in Ghana, an emerging economic landscape, which this study sets forth to ascertain.

6. Methodology

For the purpose this study, the Causal Research Design which determines the cause and effect relationship between variables, manipulate one or more independent variables and determine the nature of the relationship between the causal variables and the effect to be predicted is used. Thus, Quantitative approaches with the appropriate experimental designs are used throughout the study to establish the relationship between the dependent and the independent variables.

To be able to achieve the research objectives, the study proposes the following hypotheses for investigation:

- H_1: Entrepreneur's accomplishments has a significant positive relation with entrepreneurial financing.
- H_2: Investor's required rate of returnhas a significant positive relation with entrepreneurial financing.
- H_3: Investor's perceived riskhas a significant negative relation with entrepreneurial financing.
- H_4: Venture anticipated growth ratehas a significant positive relation with entrepreneurial financing.
- H_5: Technology has a significant positive relation with entrepreneurial financing.

The main instrument used to collect data from respondents for analysis is the survey questionnaire. For the purpose of this research, our population of interest is defined as all entrepreneurial and investors. The purposive sampling technique is used to select the sample. A sample size of 100 is used in this research for the purpose of data collection and analysis. The data which is mainly used in this research is the primary data and it was analysed by the use of Statistical Package for Social Sciences (SPSS) 19.0, Excel, and Minitab software for windows.

7. Results and Discussions

Assessing the impact of entrepreneur's accomplishments, investor's perceived risk, technology, venture anticipated growth rate and investor's required rate of return on entrepreneurial financing.

	Beta	T	Sig
ACCOMPLISHMENT	.032	.784	.434
RROR	.209	3.328	.001*
RISK	-.097	-1.513	.134
GROWTH	.634	8.331	.000*
TECH	.638	7.797	.000*
R		.845[a]	
R Square		.707	
F		93.178	
Sig.		.000[a]	
$*p < 0.005$			
a. Independent variables: Accomplishment, RROR, Risk, Growth, Tech			
b. Dependent Variable: Ent. Financing			

Table 1: Multiple Regression Results

The use of table 4.0 is required to identify the significance of each of the individual independent variables at 5% significance level. This will further help to address the hypotheses in this study.

Entrepreneur's Accomplishments according to table 4.0 has a positive beta value of 0.032 with a *p-value* of 0.434 > 0.05 at 95% confidence level. This suggests that Entrepreneur's Accomplishments does not significantly predict entrepreneurial financing. Even though, the beta value of 0.032 supports the claims that Entrepreneur's Accomplishments has a positive impact on entrepreneurial financing, the relationship is not significant, which makes the first hypothesis in this research not supported. As a result, the finding in this research show that the successes chalked by an entrepreneur does not significantly determine whether or not he will obtain the necessary finance from investors. This finding contradicts the earlier finding of Benoit, (2010) who suggested that entrepreneur's accomplishment serves as a verifiable trail that can motivate creditors that their money would be used judiciously. This contradiction may be as a result of the differences in the perception of the different respondents used in these different studies.

The Investors Required Rate of Return from table 4.0 also has a positive beta value of 0.209 with a *p-value* of 0.001 < 0.05 at 95% confidence level. This implies that Investors Required Rate of Return significantly impact on entrepreneurial financing. The beta value of 0.209 supports the second hypothesis of this research which claim that Investors Required Rate of Return has a significant positive impact on entrepreneurial financing. A higher rate of return on investors' investments will lead to the willingness of investors providing the necessary capital for entrepreneurs, thus increasing the availability of entrepreneurial financing.
Investor's perceived risk however, has a beta value of -0.097 with a *p-value* of 0.134 > 0.05 at 5% significant level. This simply mean that Investor's perceived risk does have a negative impact on the availability of entrepreneurial financing but the impact is not that significant. This derivation makes the third hypothesis of this study not supported. The implication of this conclusion finally is that the risk associated an entrepreneur's venture dose not actually determine the willingness of investors in providing the necessary capital for entrepreneurs. This finding contradicts the earlier findings of Smith, Smith and Bliss (2011) who noted that businesses that are successful at the first stage (start-up) are usually favoured when securing finance for the next stage of expansion due to reduced risk. This contradiction may be attributed to the differences in the attitudes of the investors used in these studies; with those used in smith's study being more risk averse than those used in this study.
Theanticipated growth rate of the entrepreneur's venture also has a positive beta value of 0.634 with a *p-value* of 0.000 < 0.05 at 95% confidence level. This analysis simply portrays that the anticipated growth rate of a venture does have a significant positive impact on entrepreneurial financing. This conclusion further implies that the anticipated growth of a venture significantly predict the availability of entrepreneurial financing. As a result, the fourth hypothesis of this research could be said to have been supported.
Finally, the level of technology from table 4.0 also has a positive beta value of 0.638 with a *p-value* of 0.000 < 0.05 at 95% confidence level. This result implies that the level of application of technology by an entrepreneur has a significant positive impact on entrepreneurial financing. As a result, fusion of Information Technology (IT) with business has been identified to fuel business growth and development and improved customer satisfaction. This eventually results in the willingness of investors to providing the necessary finance for the entrepreneur who adopt this practice.

8. Conclusions and Recommendations

The main motive of this research was to investigate into the factors that account for entrepreneurial financing in the Ghanaian context. The plethora of literature in the area of entrepreneurial financing identified factors such as Entrepreneur's Accomplishments, Investor's Perceived Risk, Technology, Venture Anticipated Growth Rate and Investor's Required Rate of Return in the global landscape. Results from the analysis in this study however showed that indeed entrepreneurial financing in the Ghanaian context are significantly predicted by three main factors: Investor's Required Rate of Return, Venture Anticipated Growth Rate and Technology. It can therefore be concluded based on the prevailing data that the three preceding factors should be thoroughly considered by entrepreneurs in Ghana in order to offset challenges when it comes to entrepreneurial financing.
As a result, entrepreneurs may consider fusing technology in their businesses in terms of marketing their products, services and engaging with their customers since investor's rate technology high and as a precursor to succeed in the Ghanaian business terrain. This will make their businesses more attractive not only to customers but to investors as well. Also, to make it easier for entrepreneurs to obtain finance, it is recommended that they venture into businesses with high growth rate potential which also promises better return on investment.

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