Journal of Investment and Management
2015; 4(6): 301-310
Published online August 27, 2015 (http://www.sciencepublishinggroup.com/j/jim)
doi: 10.11648/j.jim.20150406.13
ISSN: 2328-7713 (Print); ISSN: 2328-7721 (Online)

Financing the Expansion of Family Businesses in Ghana: Which Way to Go, Debt or Equity

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To cite this article:
Joseph Yensu, Edmond Oppong-Peprah, Elizabeth Dwomo-Fokuo, Francis Boadu, Anthony Kusi. Financing the Expansion of Family Businesses in Ghana: Which Way to Go, Debt or Equity. *Journal of Investment and Management*. Vol. 4, No. 6, 2015, pp. 301-310. doi: 10.11648/j.jim.20150406.13

Abstract: Financing activities are crucial exercises in any organizational set-up. It has attracted intense debate and scholarly attention in the financial management arena over the years, whether businesses should opt for debt or equity financing to expand their businesses or not. This paper attempts to ascertain the type of finance that family business operators in Ghana use to expand their business using Ashanti Region as the study area. Questionnaires were administered to 148 family businesses in Ghana. Descriptive survey study design was adopted to achieve the envisaged aims of the study. A total of 150 questionnaires were administered but 148 family businesses responded. Generally, the study revealed that founders or owner-managers use equity financing (68.92 %) as a source of start-up capital to commence their business activities. Also, founders or owner-managers admitted that they will only allow external investors (venture capitalist and business angels) to come in, if they would be prepared to offer advice and expertise to them alone, and nothing more. To establish whether family business use debt or equity financing for their expansion activities, a total of seven variables were used to measure the level of acceptance among the family business operators. These variables were analyzed using principle component factor analysis with varimax rotation. Varimax rotation with Kaiser Normalization was done to simplify and minimize the number of factors to achieve meaningful construction. As a result, 7 crucial variables were established as the sources of development finance by family businesses, which include external equity funding (venture capital and business angel), equity (family & friends, partnership) funding, rotational savings, owner's equity, debt funding, re-invest profits earned, and government support, 4 factors are also established as sources of development finance by family businesses namely internal investment fund, mixed investment fund, external investment fund (funds from non family members) and source from anywhere. The paper seeks to establish that family business operators in Ghana utilize both debt and equity financing (mixed investment) for their business developmental activities. However, the equity financing is limited to family & friends, and partners alone and not private equity investors-venture capitalist and business angels. The study recommends that Ghana Venture Capital Trust Fund and venture capital companies should embark on massive educational and information program on venture capital support activities in order to disseminate the needed information to family business owners concerning the financing options and support services available to them.

Keywords: Family Business, Debt, Equity, Financing and Owner-Manager

1. Introduction

Family business is a business that involves two or more members of a particular family, with financial control and management of the administration, operations and strategic direction of company's destiny. Family businesses were considered as some of the engines of the post-industrial growth processes as they were credited for nurturing entrepreneurial talent across generations, a sense of loyalty to business success and long-term strategic commitment. Family businesses range from small, medium size and large companies around the world. Companies such as Wal-Mart, Marriott's, Mars, Saarland, Cardone (manufacturing), Ratner, Ford, Walgreen, Kasapreko, Joefel (catering) services, Poku Transport Children's Hospital are famous examples of family businesses (G. W. Dyer, 2006). They play a major role in economic development in every country across the globe.

Researchers view them as the backbone of the private economy, as they make a substantial contribution to national socio-economic and entrepreneurial development (G. Connolly, C. Jay, 1996; P. Poutziouris, C. Chittenden, 1996; F. Neubauer, G. A. Lank, 1998; P. Leach, T. Bogod, 1999; A. C. Romano, G. Tanewski, X. K. Smyrnios, 2000). They account for up to 80 percent of enterprises worldwide (G. W. Dyer, 2006), and contribute on average 60 percent of total formal employment in the manufacturing sector (C. Dannreuther, L. Perren, 2013; M. Ayyagari, T. Beck, A. Demirguc-Kunt, 2007). For most developed economies, the family business sector is estimated to account for over two thirds of all enterprises and about half of the GDP (E. K. Gersick, J. Davis, M. Hampton, I. Lansberg, 1996). In the United States, it is estimated that more than 90 percent of all firms are believed to be family businesses and 78 percent of the new jobs generated come from this sector (The Business Forum, 2001). The situation is not quite different from what pertains in European countries as family businesses make an important contribution to macro-economic activity, in some cases accounting for at least 85 percent of all European companies' operations (G. W. Dyer, 2006). The picture prevailing in African economies towards family business is quite good as the sector contributes huge employment opportunities and about 60 percent of the GDP of the continent as a whole.

For all these businesses to survive and continue to play a leading role towards socio-economic development across the globe, financing should be a crucial component. Financing of businesses have received extensive research in the literature. Businesses normally opt for either debt or equity financing. These are the two main sources of financing available to business operators. A World Bank study found that about 90 % of small enterprises surveyed stated that one of the main obstacles of doing business is access to finance (R. Parker, R. Riopelle, W. Steel, 1995). This affects a lot of businesses which operate in developing countries, and adversely affect the growth of the smaller and medium size family business sector than that of large companies (M. Schiffer, W. Beatrice, 2001; T. Beck, A. Demirguc-Kunt, R. Levine, 2005; T. Beck, A. Demirguc-Kunt, L. Laeven, V. Maksimovic, 2006). According to enterprise-level data collected by the World Bank (in various years), smaller and medium size family businesses in Sub-Saharan Africa are more financially constrained than in any other developing region. Only 20 percent of smaller and medium size family businesses in Sub-Saharan Africa have a line of credit from financial institutions, compared, for example, to 44 percent in Latin America and the Caribbean's. Only 9 percent of their investments are funded by banks as against 23 percent in Eastern Europe and Central Asia.

Financing challenges facing businesses as a world-wide phenomenon have never been fully addressed (W. Lili, 2003). Countries around the world have adopted many policies like fiscal subsidies, credit supplementations and policy loans. China for instance has resorted to a variety of measures, including the establishment of hundreds of agencies to help businesses. In Africa, financing of businesses is an important policy priority to both government and business captains.

In Ghana, a lot of financial reforms have taken place over the years to cater for businesses. The financial sector is regulated by the Bank of Ghana. Its core business is to give credit to business entities that may apply for debt financing as a seed or expansion capital. In 2006, the government set up Venture Capital Trust Fund to aid businesses which are in need of seed and expansion capital funds. Because of the vital role that family businesses play towards economic growth and development, in Ghana, various programs and agencies are available to support and promote the growth and expansion of family businesses. Some of these agencies are the National Board for Small-Scale Industries (NBSSI), Business Assistance Fund, Ghana Investment Fund, GRATIS Foundation, and the Rural Enterprise Project. Yet, to be specific, family businesses face the difficulty in sourcing and ascertaining the type of finance they need for capital expansion.

The aim of this study is to better understand the type of finance that family businesses in Ghana opt for when they are in need of capital for expansion. Specifically, this study endeavors to achieve the following objectives: (1) to examine the funding structure of family business operators, and (2) to identify sources of development finance available to family business operator. Our findings could enrich discussions of appropriate policy frameworks that could stimulate family business finance in Ghana.

2. Literature Review

Contemporary financing literature reveals keen focus of experts and researchers on small and medium scale business financing. Financing is a core factor for the success of business organization in the long-run (F. Boadu, G. Dwomoh, A. Sarpong, E. Dwomo-Fokuo, 2014). It plays a very crucial role in every business endeavor. It is the engine of business development and expansion and for that reason institutions all over the world take steps to run efficient and prudent financial systems. To sustain businesses or entrepreneurial activities in an economy, financial institutions or financial markets have to satisfy the business community by providing them with enough capital for business development, especially to small and medium family businesses for effective running of business activities (F. Boadu, 2008). If businesses are satisfied with the supply, productivity gets enhanced while job creation, wealth creation, business growth and expansion, as well as revenue and taxes to the government are addressed. These lead to the development of the businesses and their long-term economic growth (I. Stefanovic, P. Damnjanovic, O. Jasko, 2010). Businesses are now deeply concerned with the factors which cause financing gabs to constrain family businesses and small and medium size enterprises. Understanding the financing gabs may help in sustaining businesses and avoid the adverse effects that may results due to financing.

2.1. Financing Gap of Family Business

The gap affects both formal and informal small and medium size family businesses, with access to credit the biggest problem (IFC, 2009). Available literature is clear on the fact that small businesses mostly have problems accessing funds from financial providers to finance fixed assets and working capital for their operations (J. Tucker, and J. Lean, 2003). This gap, hampering the strategic financial development of family businesses, has been under the microscope of business researchers and enterprise policy makers for decades (E. J. Bolton, 1971; H. Wilson, 1979; Aston Business School, 1991; ESRC—Business Research Centre, 1992, 1996; Bank of England, 2001: P. Poutziouris, 2001). This finance gap is a multi dimensional barrier involving the problematic flow of development debt financing, the persistence of an equity gap which exacerbates the debt gap the short-term approach to strategic financial management and development planning of closely family firms, widening the gap as they are often skeptical about the deployment of externally generated, long-term funding. This attitude is indicative of the under capitalization of family businesses as a result of the over reliance on short-term financial options (P. Poutziouris, F. Chittenden, N. Michaelas, 1998, P. Poutziouris, 2001). But the widely held view that small businesses are the engine of economic growth and that market imperfections impede their growth have encouraged government interventions in the markets for small business finance (T. Beck, A. Demirguc-Kunt, L. Laeven, V. Maksimovic, 2006). All these gaps have prompted various governments across the globe to institute numerous measures to close the finance gap. For instance in Ghana, the government has set up Venture Capital Trust Fund, Business Assistance Fund, Ghana Investment Fund, and GRATIS Foundation to address the issues of funding towards SME projects. In the United Kingdom, the response of the government is aimed at closing the equity side of the finance gap via channeling more equity capital essential for the realization of the growth potential of entrepreneurial family and small scale enterprises. These have been achieved through orchestration of a number of schemes including the promotion of the Business Angel Network and the Business Expansion Scheme (P. Poutziouris, 2001).

2.2. Debt Financing or Equity Financing

Lack of access to finance is consistently cited in surveys as a principal constraint on the development of businesses in African countries (E. Aryeetey, A. Baah-Nuakoh, T. Duggleby, H. Hettige, F.W Steel, 1994). Family business entrepreneurs have four funds options to consider when starting or expanding their businesses. These are: by acquiring a debt, by accepting equity shares in the business, by securing funds from a mix of both above, by funding the company oneself – categorized as Private Investment.

Debt financing is a process of borrowing money from a person or institution and signing a promissory note to pay the said amount together with interest when the time is due. This source does not involve giving up part of the ownership of the business. The main sources of debt financing include family loans (loans from friends and relations, usually on very favorable terms), state support, mortgages, leasing, bank loans, trade credit, finance companies, and insurance companies. One main motive for starting a small business is to maintain greater control over the operation of the business and to internalize the benefits of personal effort and risk-taking. In this regard, then, it is understandable that many family business managers would not tolerate any dilution of this control through the introduction of outside equity. Thus, the motives of owner-managers of family business may constitute a major constraint on the range of external financing sources available to the firm (J. Tucker, J. Lean, 2003).

On the other hand, equity financing is a process of trading a percentage of the ownership of the business for money. The sources include personal savings, venture capital, funds from established companies for research cooperation, stock exchange, friends and family members, partnership, and business angels. In this regard, the concept of "risk investors, mainly Business Angels (BA) and Venture Capitalists (VC) which invest in both start-up and expansion stage expecting however, a portion of the company in return, is important to be considered. Venture Capital is a widely used form of financial intermediation that is particularly well suited to support the creation and growth of entrepreneurial companies (T. Hellman, M. Puri, 2000; J. T. Chemmanur, S. He, D. Nandy, 2011; F. Boadu, G. Dwomoh, A. Sarpong, and E. Dwomo-Fokuo, 2014). It has also been credited with stimulating job creation, innovation, and economic growth (S. Kortum, J. Lerner, 2000; Global Insight, 2007; F. Boadu, G. Dwomoh, A. Sarpong, and E. Dwomo-Fokuo, 2014). Venture Capital market has tremendous effect on family businesses. According to F. Boadu (2008), Venture Capital market which comprises both Business Angels (BA) and Venture Capitalists raises enough capital for business development especially for family businesses for effective running of business activities.

Lastly, family business founders or owner-managers can resort to finance their business activities with their own personal funds without recourse to any external funds. This helps the owners to maintain full ownership of the business.

2.3. Family Business Expansion and Source of Development Fund

Most of the governments in the world are focusing on their support programs including financing for the family business development, in order to sustain a stable national economy (S. Butler, 2008). Financial resources are of vital importance for a business to run its operations profitably. Family businesses have comparatively limited resources and greater difficulty in accessing funding for both starts up and expansion stages of the business life, due to the inward looking attitude of these businesses. These inward looking attitudes prevent them from accepting external bodies in the running and managing of their businesses. According to C. S. Myers (1984) privately held, smaller companies finance their capital needs in a hierarchical fashion, first using internally available funds, followed by debt and finally, external equity. This preference reflects the relative costs of various sources of finance, owing to the existence of information asymmetries. It could be argued that Myers assertion is particularly relevant to family businesses, as they are widely characterized by an aversion to outside capital infusions (B. Dunn, M. Hughes, 1995; A. M. Gallo, A. Vilaseca 1996; P. Poutziouris, F. Chittenden, N. Michaelas, 1998; A. C. Romano, G. Tanewski, and X. K. Smyrnios, 2000; P. Poutziouris, 2000, P. Poutziouris, 2001), and experience relatively more restrictive transactional and behavioral costs in raising external equity (R. Pettit, R. Singer, 1985).

Furthermore, the use of external equity including stock market flotation would widen the share ownership of the family business, leading to loss of control by the original founders or owner-managers or even a hostile takeover. This has scared most of family business founders or owner-managers to avoid the use of external equity finance and to rely more heavily on retained profits and short-term bank loan finance, followed by medium-term bank loans. This is not to say that family business founders or owner-managers entirely refuse external equity for expansion projects. They often consider it as a last resort to finance strategic transitions, such as market-oriented business growth, generational and management succession, widening the capital base in the context of management buy-out (MBO), and other exit options (P. Poutziouris, 1999).

In a recent empirical investigation, P. Poutziouris, F. Chittenden, N. Michaelas, (1998) established that the financial development of private companies is influenced by the state of the economy, conditions in the capital markets, internal business characteristics, and the owner-directors' attitudes toward financial independence, business risk, and family business control (P. Poutziouris, 2001).

3. Methodology

3.1. Study Area

Ashanti Region is chosen as our case study area since it is a cosmopolitan region in Ghana. The region is the third largest of 10 administrative regions in Ghana, occupying a total land surface of 24,389 square kilometers or 10.2 per cent of the total land area of Ghana. In terms of population, however, it is the most populated region with a population of 4,780,380 in 2010 population and housing census (PHC), accounting for 19.4 percent of Ghana's total population; however, its density (148.1 per square km) is lower than those of the Greater Accra (895.5/km2) and Central Region (162.2/km2) (Ghana Statistical Service, 2010). The region is centrally located in the middle belt of Ghana. It lies between longitudes 0.15W and 2.25W, and latitudes 5.50N and 7.46N. The region shares boundaries with four of the ten political regions, which are Brong- Ahafo Region in the north, Eastern Region in the east, Central Region in the south and Western Region in the south west. The region is divided into 30 districts, each headed by a district chief executive. Majority of the region's population are Ghanaians by birth (87.3%) with about five per cent naturalized Ghanaians. A smaller proportion (5.8%) of the population originates from outside Ghana, being 3.7 per cent mainly from the five English-speaking countries of ECOWAS and 2.1 per cent from other African countries. The non-African population living in the region is 1.8 per cent of the total population. Akans are the predominant ethnic group in the region, representing 77.9% of Ghanaians by birth. A high proportion (78.9%) of the Akan population is Asante. The non-Akan population in the region comprises the Mole-Dagbon (9.0%), the Ewe (3.2%), the Grusi (2.4%), the Mande-Busanga (1.8%) and the Ga-Dangme (1.4%). The other smaller ethnic groups form about 1.3 per cent of the population of the region (Wikipedia, 2015). Ashanti region is the cultural heartbeat of Ghana. It is land of the Golden stool.

3.2. Population of the Study

The population of the study is made up of all the family businesses operating in the Ashanti Region of Ghana as at 2015.

3.3. Sample Size and Procedure

The researchers used the Association of Ghana Industries' directory of the Ashanti Region of Ghana to select the elements of the study. In all, one hundred and fifty (150) family businesses were contacted for the survey, but only one hundred and forty-eight of the questionnaires were retrieved for the analysis. In each business entity, the Chief Executive Officers (C.E.O's) were given questionnaire to respond to. Purposive method was used in this study due to the number of family businesses in Ashanti Region, as well as its suitability in reaching all the respondents across the region.

3.4. Research Instrument

The researchers designed one set of questionnaire, for the Chief Executive Officers. The questionnaire for C.E.O's covered general background of the respondents, sources of start-up capital, willingness of founders or owner-managers to partner external fund providers and sources of development finance. The final open-ended questionnaire was designed to gather opinions, suggestions and comments in general with regard to the research and areas of further study. Data collected were analyzed using descriptive and inferential statistics. The questionnaire was designed to obtain a fair representation of the opinions of the 148 sample respondents using a five-point Likert type scale ranging from Strongly disagree (SD) - 5 points, Disagree (D) -4 points, Not Sure (NS) -3 points, Agree (A) -2 points, Strongly Agree (SA) - 1 point. As at May, 2015 a total of 150 questionnaires were given out, and 148 were received and used for the analysis.

3.5. Data Presentation

Data gathered were coded and the results were analyzed using an STATA computer package. The findings of the study were presented using appropriate tables to ensure easy interpretation.

4. Discussion of Results

The findings of the survey are discussed in this section. This section begins with description of the general characteristics of the respondents. It then examines the results on sources of start-up capital, and willingness of founders or owner-managers to partner external fund providers and finally, the sources of development finance to family businesses.

4.1. Characteristics of the Respondents

Table 1 shown below demonstrates the characteristics of the sample. Regarding the gender distribution of the respondents 68.92 % were male and 31.08 % female. The imbalance ratio of male to female can be accepted as normal in family business as it requires long working hours. In terms of age distribution, the result indicates that 78.38 % of the respondents were within the age group of 21-50. The mean age of the total number of respondents fell around the age of 35 years. This means that family business operators in Ghana are relatively young and can work effectively to promote family business towards economic development for a longer period. From the table, it is clear that the level of education was high among family business operators selected for the study. Approximately eighty-two percent of them were literate. The study indicates that 16.89 % of the respondents completed elementary school education. And almost 30 % completed secondary school while 54.06 % of the respondents have higher national diploma, university education and professional designation (nursing and accounting). The main reason for the high proportion of graduate was probably due to the characteristics of urban population.

The study also found that trading is the dominant type of business for 48.65 %. This is followed by service industry (37.16 %). Since trading and service industry requires little initial capital investment, it appears more suitable for most Ghanaians. Manufacturing only accounts for 14.19 %. Manufacturing is an engine of growth to every economy, the collapse of which can lead to massive unemployment. Ghanaian situation is not far from this. As the study indicates, 14.19 % of the business sector is devoted to manufacturing. This should be of much concern to developing country like Ghana.

When asked about the legal status of the businesses, 60.81 % of the respondents indicated that they run the sole proprietorship form of business. Approximately twenty-two percent have registered as private companies and 17.57 % are in partnership. None of them is a public company.

Table 1. *Sample Characteristic.*

Sample Characteristic	Items	Frequency (N= 148)	Percent of Total
Gender	Male	102	68.92
	Female	46	31.08
Respondent's Age Range	21-30 yrs	26	17.57
	31-40 yrs	40	27.03
	41-50 yrs	50	33.78
	51-60 yrs	29	19.59
	61 and above	3	2.03
Education	Elementary	25	16.89
	Secondary	43	29.05
	Polytechnic	44	29.74
	University	34	22.97
	Other	2	1.35
Legal Status of the Business	Sole Proprietorship	90	60.81
	Partnership	26	17.57
	Private Company	32	21.62
	Public Company	-	-
Sector of the Business	Manufacturing	21	14.19
	Service	55	37.16
	Trading	72	48.65

Source: Field Data, 2015

4.2. Sources of Start-Up Capital of Family Businesses

There are obvious differences in the type of financing in family businesses in Ghana. As it can be seen from Table 2, founders or owner-managers adopt equity financing for their family businesses more than the others. Equity financing in the form of Venture Capital and Business Angel has a slightly smaller percentage (4.05 %) than the overall equity financing of start-up family businesses (68.92 %) in the business economy as a whole, and a much lower percentage of both debt and equity financing (16.22 %). It is evident that equity financing usually comes from the founders or owner-managers relying on personal savings from previous engagement, money from friends or family members and other partners. This study clearly shows that family business founders in Ghana place high importance on the retention of family ownership and preservation of the business and its traditions for the next generation. As an option Venture Capital and Business Angel recorded the least figure. It is an indication that family businesses do not want to lose control of ownership to strategic investors at the initial stage of the business operation.

Table 2. *Funding Structure of Family Businesses.*

Start-Up Financing	Number	Percent of Total
Owner's equity	32	21.62
Bank debt	16	10.81
External equity funding (venture capital, business angel)	6	4.05
Equity (family & friends, partnership, etc)	70	47.30
Both debt and equity	24	16.22
Total	148	100

Source: Field Data, 2015

4.3. Active Role of Investors in Family Businesses Financed by External Investors

Preferred active role of investors in family business financed by external investors towards family businesses development in Ghana is shown in Table 3. The highest assistants expected by all founders or owner-managers were to offer their advice and expertise to them. This represents 54.10 % of the total respondents. In addition, 32.40 % of the respondents added that they would be prepared for investors to take a seat on the board and / or voting right. In totality 69.6 % of the respondents did not want external investors meddling in the affairs of the family business. One of the reasons could be that they want to hide their trade secrets and inside information from the general public.

Table 3. *Active Role of Investors in Family Business Financed by External Investors.*

Active Role of Investors in Family Business Financed by External Investors	Number	Percent of Total
Investors to take a seat on the board and / or voting right	45	32.40
Investors to offer their advice and expertise	80	54.10
Investors that are completely passive	23	15.50
Total	148	100

Source: Field Data, 2015

4.4. Sources of Development Finance in Ghana

The question on sources of development finance required the founders or owner-managers to rate the importance of each objective on a five-point scale with one (1) being "strongly agree" to five (5) being "strongly disagree". Table 4 below summarizes the reasons given by respondents for deciding on how to finance their business expansion. The analysis was carried out in accordance with the research questions. The responses to questions were scored and the mean and standard deviation determined. A mean response cut-off score of 3.00 that is (5+4+3+2+1)/5 was adopted. Based on the responses, the primary reasons concerning sources of development finance were: "Re-invest profits earned" (4.28), "Debt Funding" (4.09), "Owner's Equity" (3.27), "Government Support" (3.02), "Equity (Family & Friends, Partnership)" (3.01), and finally "External Equity funding (Venture Capitalist and Business Angels)" (2.99) receiving relatively less priority.

Table 4. *Mean Score and Standard Deviation for Sources of Development Finance in Ghana.*

	Variables	Mean	Std. Dev
1.	We are willing to consider external equity funding (venture capital, business angels) for expansion	2.99	1.22
2.	We are willing to consider equity (family & friends, partnership, etc) funding for expansion	3.01	1.33
3.	We are willing to consider rotational savings for expansion	2.84	1.19
4.	We are willing to use owner's equity for expansion	3.27	1.12
5.	We are willing to consider debt funding for expansion	4.09	0.87
6.	We are willing to re-invest profits earned for expansion	4.28	0.86
7.	We are willing to consider government support for expansion	3.02	1.22

Sources: Field Data, 2015

4.5. Factor Analysis Results

A factor analysis was conducted on the data collected on the sources of development finance of family businesses in Ghana. The factor analysis was performed on the 7-item scale to examine for dimensions in the scale. As presented in Table 5a, using eigenvalue ≥ 1, the analysis produced four factors, accounting for 76.80 % of the total variance in the 7 variables (Table 5b). Based on the weights on each of the four factors and the relative factor score of each variable, the four factors are named Internal Investment Fund, Mixed Investment Fund, External Investment Fund (funds from non family members) and sources from anywhere. As recommended by F. J. Hair, C. W. Black, B. J. Babin, (2010), a solution of about 60.0 % for social science study is considered satisfactory.

The first factor named Internal Investment Fund is loaded with "We are willing to consider equity (family & friends, partnership) funding for expansion"; "We are willing to consider rotational savings for expansion" and "We are willing to consider owner's equity". This study clearly indicates that family business operators are ever ready to source for funds within and outside the business boundaries for expansion projects.

The second factor which is named Mixed Investment Fund is loaded with “We are willing to consider debt funding for expansion” and “We are willing to re-invest profits earned and use for expansion”. This result suggests that family business operators can use either debt or equity to expand their business activities. But, when using debt financing they need to be careful as the cost of capital charged by banks and investors is often so high that it impedes the business profitability and also requires huge collaterals for the acquisition and repayment of the loans (J. N. Amu, 2004). The interest rate in Ghana is too high for businesses which are aiming for expansion (K.N. Sowa, A. Baah-Nuakoh, A.K. Tutu, B. Osei, 1992; E. Aryeetey, A. Baah-Nuakoh, T. Duggleby, H. Hettige, and F.W Steel, 1994; A. Bigsten, P. Collier, S. Dercon, M. Fafchamps, B. Guthier, W. Gunning, M. Soderbom, A. Oduro, Oostendorp, C. Patillo, F. Teal and A. Zeufack, 2000; N. S. Buatsi, 2002; J. Abor and N. Biekpe, 2006). For instance, financial institutions such as standard Chartered Bank and Barclays Bank were charging an interest of 28.4 percent on loans in the year 2013-2014. Having such high interest rates on loans drives away entrepreneurs especially family business operators since they are not high risk-takers, and can eventually retard the progress and development of these businesses which are considered as the backbone of economies around the globe. On the other hand, it is good for family business operators to re-invest earned profit to expand their business activities. This always helps operators to have tremendous freedom over decision-making. However, operators need to tread cautiously in order not to create conflict between shareholders since; it may impose a heavy burden on shareholders, as the more that is re-invested in the business, the fewer dividends are distributed; and the longer it lasts, the more it will impact upon their individual ventures and standard of living.

Finally, the third factor which could be called External Investment Fund is loaded with “We are willing to consider external equity funding (venture capitalist and business angels)” and “We are willing to consider government support for expansion”. From the Table 5b, it is clear that the third factor is having less than 1, which is against Kaiser Criterion suggestion, which states that factors with eigenvalues equal or higher than 1 should be retained. It is also of interest to note that factor 3 items have high uniqueness values of 76.36 % and 84.30 % respectively. This suggests that both variables are not relevant to this model and need to be discarded. The fourth factor was also dropped through analysis (Table 5b). It is clear from family business literature that finding external sources of capital to finance growth and expansion will mean diluting control, which is a situation that could impact quite emphatically on many families not to share control through sourcing funds and thereby altering their long-term vision, and this happens to be one of the key success factors of family businesses. This result is in conformity with table 3 which indicates that, family business operators in Ghana are not willing to risk their ownership control to outsiders.

The above study suggests that, family businesses in Ghana are ever ready to use equity from family and friends, owner’s equity, debt financing and re-investing their profits earned for expansion purpose. Among the listed path for expansion, owner’s equity and re-investing profit earned had high uniqueness value of 69.38 % and 69.33 % respectively. This result tends to support the assertion that family businesses use more internally generated funds for their development (J. Wards, 1987, G. Corbetta, 1995; P. Poutziouris, F. Chittenden, and N. Michaelas, 1998; P. Poutziouris 2001). On the contrary, it is clear that family business operators do not want any assistance from venture capitalist and business angels as well as government for their business expansion. This supports the views expressed by some researchers that family firms have a stronger antipathy towards external private equity-venture capital deals (R. D. Dreux, 1990; B. Dunn, M. Hughes, 1995; P. Westhead, M. Cowling, 1997b; A. M. Gallo, A. Vilaseca, 1996; N. Upton, W. Petty, 2000; P. Poutziouris, 2001). However, family business operators should not discard the services of external private equity providers. The researchers suggest that venture capital trust fund as well as the venture capital companies should intensify their educational programs to enlighten the family business operators about their existence and programs that they offer towards business development in Ghana.

Table 5a. *Principal Component Factor Analysis, factor loadings and unique variances for sources of development finance variables. (UNROTATED SOLUTION)*

(Obs=148)

Factor Analysis/Correlation				**Number of Obs=148**
Method: Principal Factors				**Retained Factors=4**
Rotation: (Unrotated)				**Number of Params=2**
Factor	**Eigenvalue**	**Difference**	**Proportion**	**Cumulative**
Factor 1	1.24612	0.56672	0.7841	0.7841
Factor 2	0.67940	0.39925	0.4275	1.2116
Factor 3	0.28015	0.24617	0.1763	1.3879
Factor 4	0.03398	0.14084	0.0214	1.4093
Factor 5	-0.10686	0.07764	-0.0672	1.3421
Factor 6	-0.18451	0.17459	-0.1161	1.2260
Factor 7	-0.35910		-0.2260	1.0000
LR test:	Independent vs.	Saturated:	chi2 (21) = 136.83	Pro>chi2 =0.0000

Factor loadings (pattern matrix) and unique variances

Variable	Factor 1	Factor 2	Factor 3	Factor 4	Uniqueness
1.We are willing to consider external equity funding (venture capital and business angel) for expansion	0.2669	0.2924	0.2822	-0.0057	0.7636
2. We are willing to consider equity (family & friends, partnership) funding for expansion	0.6357	-0.0145	0.0163	0.1068	0.5840
3. We are willing to consider rotational savings for expansion	0.6448	-0.1426	-0.1373	0.0259	0.5444
4. We are willing to consider owner's equity for expansion	0.5423	0.0132	0.0094	-0.1092	0.6938
5. We are willing to consider debt funding for expansion	0.1807	0.5486	-0.1565	-0.0602	0.6383
6. We are willing to re-invest profits earned and use for expansion	-0.1619	0.5211	-0.0512	0.0795	0.6933
7. We are willing to consider government support for expansion	0.0453	0.0269	0.3927	-0.0023	0.8430

Table 5b. *Principal Component Factor Analysis (Varimax Horst Blank Rotation), rotated factor loadings and unique variances for sources of development finance variables. (ROTATED SOLUTION)*

.rotate

Factor Analysis/Correlation				Number of Obs=148
Method: Principal Factors				**Retained Factors=4**
Rotation: Orthogonal Varimax (Kaiser on)				**Number of Params=12**
Factor	**Eigenvalue**	**Difference**	**Proportion**	**Cumulative**
Factor 1	1.22045	0.55675	0.7680	0.7680
Factor 2	0.66370	0.34440	0.4176	1.1856
Factor 3	0.31930	0.28309	0.2009	1.3865
Factor 4	0.03620		0.0228	1.4093
LR test:	Independent vs.	Saturated:	chi2 (21) = 136.83	Pro>chi2 =0.0000

Rotated Factor Loadings (Pattern Matrix) and Unique Variances

Variable	Factor 1	Factor 2	Factor 3	Factor 4	Uniqueness
1.We are willing to consider external equity funding (venture capital and business angel) for expansion			0.3728		0.7636
2. We are willing to consider equity (family & friends, partnership) funding for expansion	0.6298				0.5840
3. We are willing to consider rotational savings for expansion	0.6686				0.5444
4. We are willing to consider owner's equity for expansion	0.5270				0.6938
5. We are willing to consider debt funding for expansion		0.5781			0.6383
6. We are willing to re-invest profits earned and use for expansion		0.5105			0.6933
7. We are willing to consider government support for expansion			0.3728		0.8430

(Blanks represent abs (loading) <.3)

5. Conclusion

Finance is the lifeblood of family businesses. Many are seeking capital to fund expansion plans, yet the uniquely long-term perspective most family members have when managing their companies, together with a reluctance to relinquish control and a desire for discretion, means that finding finance that matches their requirements can be a challenge (KPMG, 2014). As a result, family businesses are casting a wide net when seeking for financing growth and expansion, using a variety of development finance sources including bank debt, retained profit, owner's equity, rotational savings, equity from friends and family, equity from venture capitalist and business angels among others. All have advantages and disadvantages, and for each option the founder or owner-manager needs to evaluate carefully the degree of control they will lose over the business, and determine just how many internal problems each financing solution might generate. The paper therefore, assessed financing family business expansion in Ghana. It explored whether family businesses use debt or equity financing as their development finance source or not. The paper has shown that family business operators in Ghana utilize both debt and equity financing for their business developmental activities. But the equity financing is limited to family & friends, and partners alone, not Private Equity Investors-Venture Capitalist and Business Angels. It also revealed that founders or owner-managers use equity financing (68.92 %) as a source of start-up capital to commence their business activities. Also, founders or owner-managers admitted that they will only allow external investors (venture capitalist and business angel) to come in, if they would be prepared to offer advice and expertise to them alone, and nothing more.

Finally, it is clear from the findings that, for a family business to propel growth and expansion, serious attention need to be paid to funding sources. Also, founders or owner-managers must evolve to accommodate changing family dynamics in order to continue the unique role of family businesses across the globe.

Recommendations

In the light of the findings and conclusion above, it is recommended that:

i. Ghana Venture Capital Trust Fund and venture capital companies embark on massive educational and information program on venture capital support activities in order to disseminate needed information to family business owners concerning the financing option and support services available to them.

ii. Family members or shareholders should be educated fully to understand the reason why the business needs to re-invest in the business to avoid any imminent conflict in the organization.

iii. Businesses that rely on re-investment as their expansion pad should set up distribution plans that will allow owners to benefit from appreciation over time.

iv. The importance that family businesses operators attach to the debt financing should be sustained by increasing the credit facilities and decreasing the interest rate. This could be possible when the prime rate charged by the central bank is minimized to allow the commercial banks to also reduce their interest rates.

v. Finally, there should be formation of family business association in Ghana. This will serve as appropriate vehicle to channel their grievances concerning interest rate, tax and other economic issues affecting their businesses.

Once these recommendations (base on the results and findings of the study) are adopted, it is hoped that ceteras paribus, the Family Business could thrive through favorable financing for fruitful and expansive outcome without any threat of undesirable external control.

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