Developing a sustainable financing model for SMEs during the organizational life cycle in Uganda

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DECLARATION

I, Paddy Mugambe, hereby declare that this thesis titled “Developing a sustainable financing model for Small Medium Enterprises during the organizational life cycle in Uganda” is my original work, has not been submitted for any degree or examination at any other university, and that all references and sources used or quoted have been indicated and acknowledged by means of a complete bibliography. This dissertation is submitted in fulfilment of a Doctorate of philosophy in Accountancy at the North West University, South Africa.

Signature: [Signature]  Date: August 5th, 2019
DEDICATION

“To the one who believed in me before anyone in the world took note of my potential. It is because of you, that I am” .................................Dorcus Nakanyike Kamya.
ACKNOWLEDGEMENT

The blessings of the God Almighty through different individuals on earth as well as the spiritual guidance have been the cornerstone for the journey towards completion of this programme.

My appreciation goes to the directors and entire management at Uganda Management Institute for the support and encouragement during my study period. I wish to also acknowledge my colleagues at the department level for the sacrifice they had to undertake during the study period.

Having taken a break of six years from academic learning, I had no doubt in my mind that it would take more than dedication to complete another academic programme. Merely taking the decision to take on a course of this magnitude was not a simple step forward decision. The following people played a crucial part in the entire decision:

Doctor Rose Kwatampora, as a colleague at the work place, your persistent cajoling right from the application process all the way through the entire period of study including continuous follow up, played a substantial part towards the completion of this programme.

Professor Pierre Lucouw my promoter with no doubt takes full credit for the output from this programme. His gentle but firm guidance right from inception to completion is the reason for the new knowledge generated by this study.

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Lastly but not least, I would like to thank my entire family especially; Susan, Daniel, Pearl, Alicia, and big boy Joram for the patience, support and motivation that you have blessed me with in this life. It is because of you that I happily wake up every day to be better than who I was the previous day. I pray that all my blessings be passed on to you and the future generation that will follow in that blood line.
ABSTRACT

World over, it is generally acceptable that Small and Medium Enterprises (SMEs) are the engines of growth for a number of economies contributing more than half of the economies employment opportunities while at the same time being sources of innovation. With generally that acceptable level of importance to different economies, it is important that these firms continuously prosper for the countries to reap the accompanying benefits. In order for these firms to prosper, there is need for conscious effort being placed on creating an environment that supports their growth and prosperity. It is from this understanding that this study set out to develop a sustainable financing model for Small and Medium Enterprises along the organizational life cycle.

The study originated from the observation that a number of researchers have undertaken studies regarding the appropriate mix of debt and equity in the capital structure of organizations with a view that organizations are looked at as standard entities without putting into consideration the stage of growth that an organization might be at. The study was based on the premise that organizations move through different stages of growth referred to as the organizational life cycle and at each stage, a different mix of debt and equity may be appropriate.

The study referred to existing literature on sources of finance using the known different categorisations to ensure a proper understanding of the financing decision. Existing literature on Small and Medium Enterprises across different economies (developed and developing) was also reviewed to emphasize and add importance to the study undertaken. Additionally, review of existing literature on organizational life cycle was done. The review of literature on organizational life cycle was used to facilitate the categorisation of firms that were under the study.

The study used mixed methods for purposes of gathering data as well as in the analysis of the data collected. Data was collected from a total of 72 firms that formed the unit of analysis. The data was collected using a number of methods including Survey questionnaire initially for data to facilitate classification of the firms along the organizational life cycle stages. This was followed by interviews with the top management representatives of firms in the study as well as documentary checklists for information regarding the financial information. The analysis of data was undertaken concurrently for quantitative and qualitative information following the mixed method approach discussed in the methodology chapter.
The key findings of the study are presented following the different stages of the organizational life cycle. At the start up stage, firms tend to heavily rely on internal sources of finance with few firms at this level maintaining long term debt in their capital structure. The major source of long term finance is equity provided by the shareholders of the firm. At this stage, firms mainly source for short term finance largely from trade credit and to some extent using friends and family for bridging finance. At the growth stage of the organizational life cycle, firms have the highest level of pressure on the financing. A number of firms at this stage have high financial demands due to the growing business which requires investment in financing. Firms at the growth stage of the organizational life cycle just like the firms at the earlier stage mainly rely on internal sources of finance with shareholders remaining the most dominant source of such funds. Additionally, firms at this stage also rely heavily on friends and family as a source of finance. However unlike in the first stage, more firms at the growth stage have long term debts in their capital structure. The third stage in the organizational life cycle is the maturity stage. According to study finding, firms at this stage have the largest variety of sources of finance. Firms’ reliance on shareholders’ funds is highly reduced at this stage with a wide spectrum of long term sources of finance being accessed. At the last stage of the organizational life cycle, firms tend to reduce on the sources of long term funds in their capital structure and concentrate on a few sources which are regarded as least costly.

In line with the primary objective of the study, a model in terms of a regression formula for determining the appropriate mix of debt and equity in the capital structure is presented accompanied with a graphical representation of the popularity of different sources of finance among SMEs in Uganda during the organizational life cycle, along a continuum.

In conclusion a number of recommendations addressed to the different actors in the financing or supporting of Small Medium Enterprises are made from the study. The actors to whom recommendations are addressed include financial institutions, the managers/owners of the SMEs and Government agencies.

**Keywords:** Financing, Financing model, Organizational life cycle, SMEs, Uganda.
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<td>AfDB</td>
<td>Africa Development Bank</td>
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<tr>
<td>ANOVA</td>
<td>Analysis of Variance</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CO</td>
<td>Company</td>
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<td>EIU</td>
<td>Economic Intelligence Unit</td>
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<td>EU</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>Gulu University Research Ethics Committee</td>
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<td>LTD</td>
<td>Limited</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>QUAL</td>
<td>Qualitative</td>
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<td>QUAN</td>
<td>Quantitative</td>
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<td>SME</td>
<td>Small Medium Enterprise</td>
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<td>Std</td>
<td>Standard</td>
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<td>UGX</td>
<td>Uganda Shillings</td>
</tr>
<tr>
<td>UNCST</td>
<td>Uganda National Council for Science and Technology</td>
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<td>US$</td>
<td>United States Dollars</td>
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CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

The way the organization’s operations are financed has a direct effect on the profitability and sustainability of an organization (Dalberg, 2011:14; Beck & Demirgüç-Kunt, 2008:389; Daniel & Tinman 2006:1609). If a costly source of financing is used by the organization, it will eliminate those investments whose profitability levels are lower than the cost of financing. The only feasible investments will be those whose returns can at least cover the cost of financing. This in turn narrows the possible investment opportunities available to the organization (Nirajini & Priya 2013:4). While the cost of such a source will in the short run affect the operational efficiency of the organization, the limited investment opportunities may impact on the sustainability of such a business in the long run. It is thus critical for any organization to consciously take decisions regarding the sources of finance to fund their operations if they are to be sustainable in the long run. As much as this decision is critical to both small and large organizations, the nature of Small and Medium Enterprises (SMEs) makes it fundamental for such organizations to take this decision with extra precaution (Dejan, Isidora & Sonja, 2011:61). The need for extra precaution is derived from the fact that SMEs not only face higher financing obstacles but are also more adversely affected by such obstacles in raising finance (Dalberg 2011:4). The major causes of these obstacles emanate from the risky nature of most SMEs businesses (Farah & Supartika 2016:136). Dejan et-al, (2011:64) argue that financing SMEs is risky and uncertain. They further argue that it is even more difficult for innovative SMEs to access financing because the innovative nature of their activities causes returns to be highly uncertain. The uncertainty associated with the innovative SMEs makes investors and potential fund providers perceive a high risk. The perceived high risk makes it challenging for the firms to raise finance.

Broadly, the sources of finance can be categorized into equity and debt sources (Dalberg, 2011:9; Mazanai & Fatoki 2011:58) especially for the long term sources of finance (Bassey, Arene & Okpukpara 2014:94). Under equity sources of finance, the available alternatives in the context of SMEs may include such sources as issue of ordinary shares to raise ordinary share capital, venture capital financing, business angels, financing
Regarding debt, SMEs can obtain finance in the form of various types of bank credit, leasing of assets, borrowing from the public, hire purchase, microfinance, debt factoring, invoice discounting, customers’ advances and trade credit (Berger & Udell 2006:2953). According to Almeida and Campello (2008:1), the sources of finance whether equity or debt can further be categorized into internal and external sources; where internal sources are those within the SMEs management’s control to decide on how much and when to use. Examples of internal sources being retained earnings and lower investment in working capital. External sources on the other hand, are those sources whose control is highly influenced by parties outside the organization’s management; examples include issue of new shares and bank borrowings.

According to the pecking order theory by Myers and Majluf (1984:209), firms prefer using internal sources of financing to external sources. When it comes to the external sources, firms prefer debt to equity due to the lower disclosure related costs. On the other hand, according to the trade-off theory, as far as debt is concerned, a firm should raise debt financing until a point where there is a balance between debt related costs (bankruptcy and agency costs) and the benefits in terms of tax shield (Myers, 2001:86; Lemma & Negash 2013:1112). Bankruptcy costs are based on the risk of bankruptcy due to borrowing which increases with increasing debt. The agency costs are those costs associated with monitoring by both the equity holders and the debt provider. The tax shield, refers to the benefit that a firm derives from the use of debt as a source of long term finance by way of interest savings since the interest paid is tax deductible (Kemsley & Nissim 2002:2407).

1.1.1 Orientation and Background

The financing decision also known as the capital structure decision is possibly one of the most important decision by any firm (Dada and Ghazali, 2016:23). The decision affects the ability of the organization to survive in both the short and long run. As a continuous decision, financing affects the overall sustainability of an organization through its effect on a number of factors that contribute towards performance (Chadha and Sharma, 2015:301). In general firm or organizations have different sizes with some being large,
medium and small enterprises. According to Amah, Daminabo-Weje and Dosunmu (2013:116), Size is usually looked at from the quantitative dimension of the number of employees. One may also argue that other measures of magnitude such as the level of turnover, asset value as well as amount of profit generated can also be measures of size. Of all the different sizes of organizations, the small and medium enterprises have a unique position within the different countries. Small and medium enterprises have been observed over time to be the leading contributors towards all economies world over right from the developed to developing countries (Peter and Naicker, 2013:14; Ayyagari, Demirgüç-Kunt, and Maksimovic 2011:2; Ghimire and Abo 2013:29).

In Uganda just like a number of other developing countries, most firms still find access to finance as one of the major challenge they face due to a number of factor including but not limited to inadequate collateral, information opaqueness, human resource capacity and affordability (Turyahikayo 2015:24). The above factors are highly pronounced among the small and medium enterprises. The nature of these small and medium enterprises in terms of importance as well as their unique demands in terms of financing requires specific attention towards creating a financing model that will ensure that progress sustainably through their existence.

1.1.1.1 Defining SMEs and their sources of financing

Small and Medium Enterprises (SMEs) have been defined in different ways from one region and country to another. What can be noticed clearly is that most definitions base on factors such as number of employees, annual turnover and asset values (Kayanula & Quartey, 2000:3; Dalberg 2011:6). According to Ayyagari, Beck and Demirgüç-Kunt (2005:5), the World Bank defines SMEs as those enterprises having a maximum of 300 employees, generating a maximum of US$ 15 million as annual turnover and having a maximum of US$ 15 million in value of assets. The OECD SME and Entrepreneurship Outlook 2005 defines SMEs as non-subsidiary, independent firms which employ fewer than a given number of employees varying across countries but the most frequent upper limit being 250 employees within the European Union. Different contexts especially by region provide different definitions based on the prevailing environment.

Regardless of the lack of a standard way of defining small and medium enterprises, there is no debate when it comes to the contribution of these firms to the economy. SMEs world over are the engines of economic growth (Gujrati 2013:86) with substantial contribution towards employment, GDP contribution and Innovation. In so doing, SMEs just like other
firms make use of different sources of finance in their broad categorisations. The broad categorisation of sources of finance may follow; the basis of ownership, basis of source generation and basis of the term or duration. The basis ownership is where sources of finance are categorised as owner’s funds or borrowed funds which are also referred to as equity and debt. The basis source of generation is where sources of finance are categorised into internal and external sources. The basis of duration or term is where sources of finance are categorised as long and short term sources.

Whatever the source of finance utilised by SMEs, clear understanding of the available different sources is critical, additionally, the unique features of these firms require that taking such a decision is affected by many factors especially the stage within the organizational life cycle.

1.1.1.2 Organizational life cycle

Organization life cycle refers to a series of stages that an organization goes through from inception through growth, maturity to decline at the extreme end in the footsteps of a product life cycle (Wong & Ellis 2007:3-7). According to Karniouchina, Carson, Short and Ketchen Jr (2013:1011), the life cycle is principally made up of growth, maturity and decline. A close analysis points to the fact that at the time when the business of an organization is growing, it can be taken to be in the growth stage. When the change in the business stagnates over a given period of time, the firm would be in the maturity stage while when business is consistently declining, the firm would be in the decline stage.

The attributes of SMEs and the need for taking a decision on financing create a problem to such firms as amplified in the problem statement below.

1.2 PROBLEM STATEMENT

Financing is a crucial factor to the success of any organization and the financing decision is one of the key decisions in financial management (Stanley, Hirt & Bartley, 2014:16). According to Modigliani and Miller (1958) in Vuong (2014:2), with an appropriate mix of sources of finance, an organization can maximize its value and hence secure financial sustainability. Different financing models such as Modigliani and Miller (M and M) with and without tax, trade off, pecking order and market timing theory have been developed to address the issue of financing organizations (Myers 2001:82). However, the models mainly focus on a generic organization and recommend a specific mix of debt and equity financing appropriate to that organization (Frielinghaus, Mostert & Firer, 2005:9). The
reality is that organizations go through different stages in their life cycles right from start-up, growth, maturity and decline (Frielinghaus et al. 2005:11) with different financing requirements at each stage. At the start-up stage, organizations especially SMEs depend mainly on owner generated funding (Latifee 2005). As organizations grow, they attract debt financing and this remains the case at maturity (Cornell & Shapiro 1988:18).

A number of studies have been carried out on the lack of access to finance as a detriment to the performance of SMEs (Ganbold, 2008:6; Peter & Naicker 2013:18). Most of these studies have focused on access to borrowed funds (Berger & Udell 2006:2950; Beck, Demirgüç-Kunt & Maksimovic 2008:391) with a few taking care of access to equity funding (Stephanou & Rodriguez 2008:11). Among the studies, there has been little emphasis on financing along the life cycle of the SMEs and the stage that has had extensive focus is the growth stage as discussed by Langberg (2008:379). This has left a gap on the appropriate funding mechanisms that would make SMEs financially sustainable specifically along the life cycle. This is more prevalent among SMEs in developing countries such as Uganda and yet they form the backbone of such economies (Obanda 2011:2413). According to Turyahikayo (2015:24) SMEs in Uganda face challenges such as Lack of collateral security, information opaqueness, inadequate technical skills, inadequate professionalism, competition from large firms and affordability as the main challenges when trying to access financing. It is for this reason that this study set out to further generate knowledge on the more appropriate funding mechanisms that can enable SMEs to survive and prosper through their various stages of the organizational life cycle (Abor & Quartey 2010: 219).

Given the level of importance of SMEs across different economies especially in the developing world and the existing gap of knowledge on financing of SMEs along the organization’s life cycle, combined with the problem of finding an appropriate funding mechanism, it was found necessary to undertake this study with the following research objectives and research questions:

1.3 RESEARCH QUESTIONS

This study sought to answer the following research question

a) What is the effect of the equity debt mix at the organization’s start-up stage on SME financial sustainability?
b) How does financing leverage at the organization’s growth stage affect financial sustainability of SMEs?

c) What is the linkage between SME financing mechanisms at the organization’s maturity stage and those at the growth stage in ensuring financial sustainability?

d) How can SMEs leverage financing mechanisms to rejuvenate firms that have reached the organization’s decline stage?

1.4 OBJECTIVES OF THE STUDY

The following objectives were formulated for the study:

1.4.1 Primary objectives

The primary objective of the study was to develop a financing model to contribute towards the financial sustainability of SMEs along the organization’s life cycle.

1.4.2 Secondary objectives

In order to achieve the primary objective, the following secondary objectives were formulated for the study:

1.4.2.1 Theoretical objectives

a) To analyse the effect of the equity debt mix at the organization’s start-up stage on SME financial sustainability.

b) To assess how financing leverage at the organization’s growth stage affect financial sustainability of SMEs.

c) To examine the linkage between SME financing mechanisms at the organization’s maturity stage and those at the growth stage in ensuring financial sustainability.

d) To determine how SMEs can leverage financing mechanisms to rejuvenate firms that have reached the organization’s decline stage.

1.4.2.2 Empirical objectives

a) To establish how the mix of debt and equity at the organization’s start-up phase affects SME financial sustainability.

b) To determine if the existing financing leverage for SMEs at the organization’s growth stage are making a meaningful impact on their financial sustainability.
c) To determine how the financing mechanisms of SMEs at an organization’s maturity stage are complementing those at the growth stage in ensuring financial sustainability.

d) To establish how SMEs can apply leverage financing mechanisms to rejuvenate themselves at the organization’s decline stage of their life cycle.

e) To determine the financing model that would ensure SME sustainability at each stage of the organizational life cycle.

1.5 RESEARCH DESIGN AND METHODOLOGY

The study comprised a literature review and an empirical study. The study made use of mixed research methods (Creswell (2012:535), Greene & Caracelli, (2003)) where both qualitative and quantitative research designs complemented each other so that the overall strength of the study is greater than either qualitative or quantitative designs (Creswell 2009:20).

A cross section survey was employed in conducting the study in line with the quantitative research design (Babbie, 1990:48) and the data was used to compute correlations among the variables under study. For the survey, a questionnaire was used to collect data from the selected respondents together with a form for financial information over a period of two years.

For the qualitative design, interviews were conducted in combination with documentary review. The documentary review also included analysis of financial statements for the organization for the two years, 2014 and 2015 depending on each organization’s reporting date.

1.6 LITERATURE REVIEW

According to Hart (1998:15), a literature review refers to the use of ideas in the literature to justify a particular approach to the topic, select methods, and demonstrate how research contributes to the generation of something new. This study used secondary data sources including relevant text books, journal articles, newspaper articles and the Internet. Review of existing literature was used to build a clear understanding of the progress made in addressing the key issues in this study through a solid theoretical foundation related to what is already known. This was used to gauge the existing gap in terms of financing SMEs along the organizational cycle thereby building the unknown. The literature also helped to build a firm foundation for the study by clearly defining and
bringing to the fore the meaning in usage of the key terms such as SMEs, financial sustainability as well as organizational life cycle. The literature review was used to further improve on the methodology, approach, questions and the research instruments.

1.7 EMPIRICAL STUDY

The empirical portion of this study comprised the following methodology dimensions:

1.7.1 Study population

The population for this study was composed of all the registered SMEs based on what is available within the relevant regulatory body in Uganda in 2015. Hence the study population is based on the definition of SMEs within the context of Uganda (Angumya 2012, Tushabomwe 2006:29).

1.7.2 Sampling frame

The sampling frame for this study was made up of the top 100 SMEs in the country. Out of all the registered SMEs in the country, purposive sampling was done to form a sample of the top 100 SMEs in Uganda according to the top 100 mid-sized survey of 2015. This was largely driven by the availability of data for these firms as opposed to the entire registered SMEs in the country whose availability could not be ascertained.

1.7.3 Sample method

The study used purposive sampling to identify the top 100 SMEs in the country, mainly because of the information richness of such firms as well the ease to access such firms. From the 100 SMEs, quota sampling combined with simple random sampling was used to select the final sample.

1.7.4 Sample size

From the 100 SMEs, a sample of 74 firms were selected in line with Gray (2014:148) where a minimum sample size of 74 observations would be appropriate at 95% level of confidence. This was to cater for the quantitative research design. The selection of the 74 firms was based on quota sampling where firms were randomly selected from among the 100 firms until the total sample of 74 was reached (Gray 2014:215).

For the qualitative survey, a sample of 20 SMEs was used to enlist data from selected respondents. The sample of 20 firms was used in line with Creswell (2014: 239) who argues for the minimum of 20 respondents under qualitative research as the number at
which saturation is likely to occur. Saturation occurs when additional respondents to the sample do not result in additional useful information to the study (Glaser & Strauss (1967: 61).

1.7.5 Measuring instrument and data collection method

The study employed a survey method in the collection of data to meet the quantitative design. This was supported by documentary review. The documentary review involved an analysis and interpretation of the financial statements of the selected companies as well as a review of existing literature about the firms that were selected for the study. These documents included public documents about the firms in terms of registration documents as well as their plans, both strategic and operational. For purposes of triangulation, interviews were also conducted to gather data to meet the needs of the qualitative design.

A survey instrument in the form of a questionnaire was used to obtain data from the final sample using non-categorical data in form of a Likert scale from 1 to 5. A documentary list was used to determine the documents that were reviewed. Additionally, financial statements and financial data for selected firms were analysed for clear understanding of the financial performance of these organizations over their life cycle.

The survey questionnaire was pilot tested on 6 potential respondents with a view of testing its reliability and validity. Upon passing the validity and reliability test, the final instrument was then administered on the selected respondents with the assistance of trained research assistants.

1.7.6 Statistical analysis

Quantitative data was analysed through summarizing the responses and tabulating them to form frequency tables and graphs. The tables were to enable patterns and trends that may not be readily visible in raw data to be identified and analysed further (Hussey & Hussey, 1997). SPSS V25 was used for further analysis in order to determine measures of average, and measures of dispersion and relationships. Correlations between the variables are determined and the output analysed. The analysis relied heavily on statistical package for Social Sciences version 25 (SPSS Amos V25). The following statistical measures are used on the empirical data sets:

- Reliability and validity analysis
- Descriptive analysis
• Significance tests

Qualitative data was analysed by categorising responses into themes that were used to create patterns and then analysed through thematic analysis. Atlas software was used to support analysis of the qualitative data as well. Documentary review for the organizations in form of financial statements helped the analysis in comparison with expected performance indicators.

1.8 ETHICAL CONSIDERATIONS

The major ethical consideration in research is the safety and protection of those involved in the study by ensuring the privacy and confidentiality of the participants (Lowrance, 2003:2). In this study, the research ensured that informed consent is received from the participants. Participants were informed prior to the research about what procedures were to be followed and the relevance of these procedures. Participants were informed of the right to cease participation at any moment they felt any kind of threat.

To ensure anonymity and hence enhance privacy, all information collected was not tagged to the provider but instead aggregated and treated as a batch. Strict adherence to the requirements of the university was followed as another ethical consideration during the study. Adherence to the requirement of Uganda National Council for Science and Technology (UNCST) the national overall entity in charge of research in Uganda was taken into consideration including affiliation and presentation to a local University in Uganda whose Ethical committee and related processes had already been vetted by UNCST. In this case, the local affiliation was to Gulu University Research Ethics Committee (GUREC). All these measures were intended to ensure the highest level of ethical considerations for a study of this nature.

1.9 SIGIFICANCE OF THE STUDY

This study was intended to close the existing gap around the appropriate sources of finance that can propel SMEs towards sustainability by focusing on the financing sources relevant at each stage of the life cycle. The findings of the study are of benefit to the following categories of stakeholders and elaborated on below:

Owners and Managers of SMEs: The model developed and the information generate will benefit the owners and managers of SMEs in taking decision about the sources of finance that would promote overall long term sustainability of the firms they own or
manage. The benefit may come from the ease of identifying the relevant sources of finance that their specific firm may benefit from depending on the characteristics of the firm based on the stage at which it is in the organizational life cycle.

**Potential Investors:** The findings of the study will facilitate potential investors in identifying the SMEs that would be suited for investment. The model can facilitate the potential investors to match their investment goals to the attributes of the SME. This can be achieved by the potential investors matching the investment term required to their investment period goals.

**Fund providers and financial institutions:** The finding of the study will facilitate fund provider and financial institutions in designing financing products that match the different SMEs in the economy. Given that firms at different stages of the life cycle have differing investment of financing needs, the fund providers can custom tailor the different financing products to each SMEs by merely analysing the attributes of that SME in terms of turnover, Asset value and profitability.

**SME regulators:** The findings of the study will facilitate the regulators including umbrella associations of the SMEs to lobby and customise intervention in the industry in order to ensure the continued growth and prosperity of the SMEs. This can be achieved through the targeted interventions aimed at covering all firms regardless of the stage of existence but with the invention being customised to be similar for firms at each stage.

1.10 PROJECT PLAN

Below is a breakdown of the structure of the study per chapter:

**Chapter classification**

**Chapter 1:** Contains the Introduction and background to the study, where study background is introduced in support of the area being studied. Specific definitions and relevant clarification about the study are provided in this chapter.

**Chapter 2:** Contains the literature review about the variables under study. Available literature on the financing sources or capital structure propositions and theories are presented as well as literature on SMEs financial sustainability and organizational life cycle.

**Chapter 3:** This chapter presents the methodology used in the study in a detailed way explaining the approaches and all aspects of design, data collection and analysis.
Chapter 4: The chapter contains the presentation of the study findings in a detailed and summarized way starting with the quantitative findings then the qualitative findings.

Chapter 5: This chapter contains an analysis of the findings of the study from the empirical research. The chapter contains a critic of the findings in line with the available literature.

Chapter 6: The chapter concentrates on the development of the financing model for financial sustainability of SMEs as they progress along the different stages of the organizational cycle.

Chapter 7: This chapter presents the conclusion from the entire study and provides closure to the study in form of recommendations, implication and contribution as well as areas of possible research in future.

1.11 CONCLUSION

This chapter presented the background to the study, a summary of the entire study in the form of the research questions, objectives and problem. It also presented the roadmap to the study in terms of a summary of the methodology including design, data collection and analysis. The chapter ends with the significance of the study and the layout of the entire study in the form of the expected chapters that follow.
CHAPTER TWO
THEORETICAL BACKGROUND TO FINANCING, FINANCIAL SUSTAINABILITY AND ORGANIZATIONAL LIFE CYCLE

2.1 INTRODUCTION

This chapter presents the available literature on the concepts under study. Financing, financial sustainability and organizational life cycle as the key concepts are reviewed according to the available literature taking into consideration their meaning, areas of agreements and disagreements among authors as well as the identified gaps in the available literature. In order to provide a firm background and enable appropriate response to the research objectives, attention is also paid towards the review of available literature on the above concepts in line with SMEs. It has been noted that most of the available research in the area of financing SMEs focuses on the generic organizations yet in reality these organizations evolve over time through different stages. In this literature review, special attention is drawn to concepts that are relevant to the Small and Medium Enterprises. The purpose of the chapter is to lay a foundation upon which the study is based by reviewing the available literature on the parameters of the study, that is financing, financial sustainability and organizational life cycle. The chapter hence facilitates the clarification of the key variables of the study and helps in clarifying the appropriateness of the research methodology adopted for the study.

2.2 THEORETICAL REVIEW OF THE CAPITAL STRUCTURE THEORIES

The capital structure decision is one of those decisions that has had an extended debate in financial management with a number of theories being put forward to explain or support the decision. According to Chadha and Sharma (2015:295), taking a decision regarding capital structure is a continuous process starting from when the firm is being set up at incorporation all through those times when the firm is desirous of additional funding to finance new projects. Nirajini and Priya (2013:1), define capital structure as the way in which the organization is financed through a combination of long term capital and short term liabilities. Akinyomi and Olagunju, (2013:999), defined capital structure as the way in which a company finances its operations whether through shareholders’ funds or borrowing or a combination of both. Clearly there is consensus on the meaning of capital structure with the focus being on the combination of the different sources of finance that
an organization deploys towards meeting its operations. The consensus is however limited to the explanation of the “what” question. Going beyond the “what” into the “how”, brings up different schools of thought which can be broadly looked at in the form of theories. There are numerous theories that try to respond to how an organization can establish an optimal capital structure. Optimal capital structure refers to that combination of the sources of finance that affirm can use to maximise its value at a defined point in time. The major theories that exist in literature with suggestions regarding the existence or none existence of the optimal capital structure point are discussed below.

2.2.1 Modigliani and Miller propositions

Modigliani and Miller (1958:261) propositions are capital structure theories that originated from a conference paper and these form the foundation upon which all the current capital structure theories are based. The authors in their original research argued that under fully efficient market conditions where there are no taxes, no bankruptcy cost, no transaction costs and there is full information available to all actors, the capital structure decision becomes irrelevant. With this theory later on named Modigliani and Miller proposition 1, but also referred to as Modigliani and Miller irrelevance theory, the conclusion is that the firm’s total value is not affected by its capital structure. This means regardless of whether the firm deploys only equity, only debt or any combination of the two, its value would not be affected. Following Modigliani and Miller proposition 1, those taking capital structure decisions would be indifferent between the different sources of finance after all the sourcing would not have any bearing on the value of the firm. The argument fronted by the authors is that even if cost of debt is cheaper than cost of capital, if a firm increases debt in its capital structure, the cost saving will be eliminated by the cost of equity as the equity holders perceive a higher risk with increasing debt. Since the cost of equity is driven by risk perceived, the increased risk will consume the cost savings from the use of additional debt (Ahmeti and Prenaj, 2015:916). Due to this there would be saving or cost to the value of the firm.

As a result of the criticism towards the assumptions of an efficient capital market that had led to taxes and transaction costs among others being ignored, Modigliani and Miller revised their earlier proposition into the second theory in 1963 referred to as Modigliani and Miller proposition 2 with taxes or relevance theory. In the second proposition with taxes, the authors incorporated the fact that in the real world, there are taxes imposed on the interest that is paid to the debt providers. The tax paid on the interest to debt holders,
acts as a tax shield to the organization because it is tax deductible. This implies that the tax amount paid by firms with debt in their capital structure will be less than that paid by comparable firms without debt in their capital structure (Alifani and Nugroho, 2013:3). Due to tax savings presented to the firm, the authors then argued that it becomes relevant for the firm to take a conscious decision regarding its capital structure since increasing the level of debt in the capital structure will bring about an in increasing effect in the value of the firm (Ahmeti and Prenaj, 2015:919).

In practice there are a number of arguments largely against the Modigliani and Miller propositions due to the inadequacy of the assumptions taken. However, there is no question as to how important or the extent to which these propositions have driven the debate and generation of knowledge on the concept of capital structure.

2.2.2 Trade-Off theory of capital structure

The traditional trade-off theory stipulates that there is an optimal capital structure for each firm at the point where the advantages of the tax shield obtained from using borrowed funds get fully offset by the financial distress costs (Myers 2001:88; Jahanzeb, Bajuri, Karami, and Ahmadimousaabad, 2014:13). This theory originated from the work of Kraus and Litzenberger (1973: 912) who based on the Modigliani and Miller proposition 2 with taxes to formally incorporate the additional variable of bankruptcy penalties in explaining the capital structure decision. The theory stipulates that in taking the capital structure decision, firms aim at striking a balance between the benefits arising from the tax shield, with the cost associated with financial distress (Myers 2001:88). According to Graham and Harvey (2001:200), this theory emphasises the firm’s choice of the sources of finance based on the trade-off between the costs and benefits of borrowing. This implies that a trade-off between the tax savings in form of tax shield and the net costs associated with borrowing in the form of financial distress, agency and bankruptcy costs (Danso and Adomako, 2014:116). According to Sheikh and Wang (2010:131) firms choose to have that mixture of the different sources of finance at which the value of the firm is maximised within the prevailing market imperfections. The value being given by the formula;

\[
\text{Value of a firm} = \text{Value from the financing sources} \{\text{Debt } + \text{ Equity}\} + \text{Present value of Interest tax shield} - \text{Present value of cost of Financial distress}
\]
From the above, the higher the present value of the tax shield, combined with the lower the present value of cost of financial distress, the more attractive debt would be to the firm. This implies that a firm will establish a target ratio of debt to equity that maximises its value (Graham and Harvey 2001:187) based on the balancing of the tax shield and the costs of bankruptcy (Myers 1984:188). Under the trade-off theory, firms with tangible non-current assets are expected to have higher levels of debt compared to those with more intangible non-current assets as a result of the lower potential bankruptcy cost. The foregoing has been confirmed by a number of authors such as Rajan and Zingales (1995:1453), Hackbarth, Hennessy and Leland (2007:1424) as well as Frank and Goyal (2003:219).

The trade-off theory has been put to test through research by a number of writers with relatively high degree of acceptance and some few disagreements. Writers such as Fama and French (2002:6), Frank and Goyal (2003:220) as well as Graham and Harvey (2001:87) to a large extent provide evidence of the applicability of the trade-off theory among firms studied. However other writers including Serrasqueiro and Nunes (2010:2220) as well as Shyam-Sunder and Myers (1999:224) have returned conclusions questioning the full applicability of the theory.

**2.2.3 Pecking order capital structure theory**

The pecking order theory promoted by Myers and Majluf (1984:187), puts forward the argument that a firm will prefer the use of internal sources of finance to external sources. The advocates of this theory further posit that when the internal sources are exhausted, firms would prefer debt to equity as the next alternative (Myers and Majluf 1984:188). If the firm has exhausted or cannot source for debt after the internal sources, that is when it will revert to equity as an external source in the form of a last resort. On the side of management, the pecking order is premised on the fact that managers will opt for the line of least resistance while raising fund. This is synonymous with picking the low lying fruits first from a fruit tree before going for those way high up the tree. With this in mind, managers will find the deployment of retained earnings as a source of finance and the most attractive option before opting for more complicated sources. Technically, the major argument in favour of the pecking order theory is the protection of the interests of the existing shareholders of the company by management as a result of the information asymmetry between these two parties. The existing shareholders are better off when their shareholding is not diluted by issuing of new shares to other investors outside the current
shareholding (Myers and Majluf 1984:190). Perhaps it is this desire to protect the interests of the existing shareholders that compels firms to follow the pecking order theory in the raising of funds for operation and funding future projects. The pecking order theory also puts forward an argument that issuing of shares to the public will signal that currently the company’s shares are overpriced and this will bring down the market price of the company’s shares if the investors are rational (Myers and Majluf 1984:203). The other strong augment in favour of the pecking order is in line with the preference of debt over equity for the external sources is that debt is cheaper than equity in that it carries a lower risk to the provider. Hence on the side of the fund providers, the debt providers will be easier to attract than the equity providers as a result of this risk comparison. The pecking order theory has been put to test by a number of researchers with some confirming and others raising questions about its applicability. Rajan and Zingales (1995:1454), using data from seven industrialised countries confirm the attractiveness of debt as a source finance compared to the less attractive issue of equity among the firms under the study. Meanwhile Frank and Goyal (2003:218) while testing the pecking order theory among firms listed publically in the United States concluded that while large firms exhibit compliance with the suggestions of the theory, when small firms are included, the theory does not hold. They come to the conclusion that the inclusion of small firms in the sample, makes issue of equity more attractive than issue of debt possibly because small firms are usually heavily reliant on the higher risk equity compared to debt. Similarly, a study by Seifert and Gonenc (2010:19) with firms from 23 emerging markets and United States came to a conclusion that pecking order theory was not fully manifested among firms in the emerging markets where equity was more attractive than debt for firms even among those firms with relatively low levels of information asymmetry and agency costs. However, the study findings also came to the conclusion that those firms with high information asymmetry and agency costs behaved in line with the arguments of pecking order theory. At the extreme Korajczyk, Lucas and McDonald (1992: 401) reached a conclusion that debt issues do not have priority over equity issues in their study.

2.2.4 Market Timing theory of capital structure

This is a capital structure theory suggested by Baker and Wurgler (2002:1), who posit that the firm’s capital structure can be explained by its past equity market timing. The theory concludes that firms issue equity to the public at the time when their market share prices are overvalued and repurchase back shares when they are undervalued. The
implication of this theory is that the firm’s capital structure is determined by cycles of over and undervaluation of its shares by the market. Coincidentally in support of this theory, Myers and Majluf (1984:189) argued that the issue of equity happens when managers release information about the firm’s operations and plans which facilitate reduction of information asymmetry. This points towards intentional market timing since whenever information asymmetry is reduced, the firm’s market share price tends to increase in line with the arguments of Korajczyk, Lucas and McDonald (1992: 406). On the other hand, Baker and Wurgler (2002:4), observed that the basis of issuing equity is the cost of equity. The writers indicated that in a study, firms tended to issue equity at the point when cost of equity was abnormally low. This is based on the rationality of the investors as well as the information asymmetry between the managers and the investors. The low cost of equity can only be justified by the perceived low risk by the investors which indirectly means that firms issue equity at the point when the investors have a lot of confidence in the management of the firm.

The market timing theory has been tested by a number of researchers with Graham and Harvey (2001:223) linking its applicability to debt instruments where the timing is based on the interest to be paid when debt instruments are raised by a firm.

2.2.5 Capital structure theory used in the study

For purposes of this study, the trade-off theory of capital structure was used as the basis of the study to explain the choice between the different sources of finance available to the SMEs in Uganda. The use of this theory was based on the logic that the preliminary review of the literature indicated that most SMEs in Uganda complained about the tax imposed on their net revenue. It hence makes sense for them to take advantage of the tax imposed by the legal framework to benefit from the tax shield as a result of using borrowed funds in the capital structure. It is important to note that it was not the aim of the study to test or critique the theory and its use was limited to guiding the literature review as well as designing and testing of the instruments that were used for the study.

2.3 SOURCES OF FINANCE

Broadly, the sources of finance can be categorized into equity and debt sources (Dalberg, 2011: 9; Mazanai & Fatoki, 2011:58) especially for the long term sources of finance (Brealey & Myers, 2003). Under Equity sources of finance, the available alternatives may include issue of ordinary shares to raise ordinary share capital, venture capital financing,
business angels, financing through mergers and acquisitions, use of personal savings and raising of funds from friends and family sources. SMEs can obtain debt finance in the form of various types of bank credit, leasing of assets, borrowing from the public, hire purchase, microfinance, debt factoring, invoice discounting, customers’ advances and trade credit (Berger & Udell, 2006:2963).

According to Almeida and Campello (2008:1), the sources of finance whether equity or debt can further be categorized into internal and external sources. Internal sources refer to those financing sources where the management of an organization has a reasonable level of influence and control over the amount involved as well as deciding on the time in point when the amount is available for use by the organization. Among all long term sources of finance available to an organization, it is the retained earnings where management exhibit the highest level of influence and control. External sources of finance are those sources whose control is highly influenced by parties outside the organization’s management. The controls are in terms of determining the amount as well as the time for generation and redemption of the amount. The most pronounced examples of external sources include issue of new shares and all forms of bank borrowing.

According to the pecking order theory by Myers and Majluf (1984:209), firms prefer using internal sources of financing to external sources. When it comes to the external sources, firms prefer debt to equity due to the lower disclosure related costs and the deductibility of interest from taxable income. On the other hand, according to the trade-off theory, as far as debt is concerned, a firm should raise debt financing until a point where there is a balance between debt related costs (bankruptcy and agency costs) and the benefits in terms of a tax shield (Myers & Majluf 1984:187). Bankruptcy costs are based on the risk of bankruptcy due to borrowing which increases with increasing debt. The agency costs are those costs associated with monitoring by both the equity holders and the debt providers. On the side of the tax shield, debt provides a tax shield to the organization as the interest paid is tax deductible.

Other than the above two classifications of sources of finance, we can also classify finance sources according to the period for which they are available. This classification can take the form of long term and short term sources of finance. Long term sources of finance are those sources whose availability is for an extended period of time while short term sources are those funding sources whose availability is for a period usually not exceeding one financial year (Gitman 2004:23). Given the nature of different
organizations, one may introduce medium term to accommodate those sources whose availability may lie in between the long term and short term sources.

Therefore, for purposes of understanding the different sources of finance available to organizations, one can summarise the common classifications as taking three forms. These are classification according to: Basis of ownership, basis of source of generation and basis of period. These sources are summarised on the next page in Figure 2.1: Sources of finance classification.
Figure 2.1: Sources of Finance

Source of Finance
Classification

On the basis of ownership

Owner’s Funds
- Equity shares
- Retained earnings

Borrowed Funds
- Debentures
- Loans from banks
- Lease financing

On the basis of source of generation

Internal sources
- Equity share capital
- Retained earnings

External Sources
- Financial institutions
- Loan from banks
- Preference shares
- Debenture
- Lease financing
- Trade credit
- Factoring

On the basis of term

Long-term
- Equity shares
- Retained earnings
- Preference shares
- Debentures
- Loan from financial institutions

Medium-term
- Loan from banks
- Lease financing

Short-term
- Trade credit
- Factoring
- Bank loans

Source: Investigator’s research based on Literature review
2.3.1 Equity sources of finance

Equity sources of finance under the basis of ownership classification include equity shares and retained earnings. Equity which in some cases is simply referred to as capital refers to the long term finance availed by the organization’s owners referred to as shareholders (Gitman et al. 2012:239-240). Equity can be generated internally by retaining any profits generated and not distributing these as dividends to the shareholders. According to Gitman (2004:480) and Pandey (2015:549), retained earnings is determined as the remainder of profits, after dividends are paid out. He asserts that any change in the level of profits is likely to change how much of such amounts remain as a source of equity to an organization. According to Pandey (2015:549), these funds may either be paid out later as dividends or reinvested in the business with a view of earning more money and increase the total assets of the organization. Hence, retained earnings serve as a source of finance for both operation and future growth and development of the business forming a very important source of long term finance. Studies such as Khan and Zulfiqar (2012:147) as well as Thuranira (2014:5) have argued that retaining of earnings ends up positively affecting the future returns of an organization. It should however be noted that although sufficient retained earnings may be available, a further requirement for financing is the availability of liquid assets.

The other component of equity is made up of shares which may take the form of ordinary shares (ordinary share capital) or preference shares (preference share capital). Ordinary share capital refers to the amount invested by the owners of an organization usually at the time of start-up or as a way of re-investment. Sibilkov (2009:1185) asserts that equity enables the firm to obtain funds without a debt burden because the funds obtained through equity do not have to be repaid to the providers at any one moment. Instead those investing such money obtain a return from profits once realised. Share capital is normally divided into units called shares with a defined monetary value and these units are held by the owners also called shareholders according to Gitman (2004:309).

According to Kaur (2015:60), the funds raised by the issue of such shares, form the share capital of an organization. Kaur (2015:60) emphasises the fact that ordinary share capital forms the basis of the organization’s capital structure. This is in line with classic literature where under the case of South Shore Mutual Insurance Co Ltd v Blair (1999) STC (SCD) 296, the judge commented that to determine that an entity is a company, we have to consider whether it has share capital (Miller 2007:2).
Holders of ordinary shares have voting rights in the affairs of the organization and have the privilege to share dividends and/or future capital gains when a firm is performing well. The flipside of the coin is that they equally suffer losses when a firm is not performing well much as this loss is normally limited to the amount invested (Gitman 2004:6). The Companies Act 2012 of Uganda provides for the issuance of equity share capital as well as other forms of capital with differing rights.

Another variation of equity is preference shares which constitute preference share capital. Preference shares are a special type of equity where the holders are given preferential treatment regarding the payment of dividends as well as in the repayment of their investment in the case of organizational liquidation (Kaur 2015:61). Just like the ordinary shares, preference shares can take on different forms including:

- Cumulative and non-cumulative preference shares where cumulative preference shares are those for which if the amount available for dividends is insufficient, the remaining balance would be paid in a future period the moment sufficient funds are available.
- Non-cumulative preference shares are those where if funds are not sufficient, the balance is not carried forward to future periods.
- Redeemable preference shares are those shares that a company can buy back within a defined period of time. Such preference shares tend to be similar to debt and may not qualify as equity but instead as non-current liabilities.
- Irredeemable preference shares on the other hand are those shares that have the characteristics of ordinary shares since they are never redeemed.
-Convertible preference and non-convertible shares are those which can be transformed into ordinary shares upon occurrence of an event. Non-convertible preference shares are those that cannot be converted into ordinary shares.
- Participating and non-participating preference shares; Participating preference shares are those preference shares that share more characteristics with ordinary shares. These shares carry with them a right to share in any surplus that remains after the payment of ordinary share dividends. Non-participating preference shares are the normal preference shares that do not carry such rights.

According to Myers and Majluf (1984:207), the three sources of equity above may belong to either internal equity or external equity. The retained earnings belong to the category of internal equity, because their retention is largely controlled by the management of an
organization. This is due to the fact that the organization will decide the amount to pay out as dividend and the proportion to retain for future use as a source of finance for the future reinvestments.

The ordinary shares and preference shares are classified as external equity since they involve issuing shares to those outside the organization before they accumulate as a source of finance. Arguments have been fronted on the preference within the organization over the internal and external sources of equity with one school of thought presenting that external equity should only be used when the internal equity sources are depleted. This school of thought is supported by Graham and Harvey (2001:215) who argue that unless retained earnings are insufficient to cover the available investment opportunities, a firm should not raise external equity.

Firms raise external equity when their internal equity (retained earnings) sources are not sufficient to cover the required investment opportunities (Graham & Harvey 2001:215). Some have argued (Narayan 2008:49) that continued raising of external equity may lead to loss of confidence by the public in the affairs of the company due to the perceived lack of internal reserves and this may lead to a reduction in the market price per share of the company.

Other than the above three major sources of equity, finance has evolved to accommodate different forms of providers of equity finance such as venture capital and business angels or simply angel capital. Venture capital is a form of equity provided by fund providers usually to finance high risk and high potential investments with a view of generating a high return in a defined time period and leaving the organization to continue on its own. According to Berger and Udell (1998:619), even with the high risk appetite, venture capitalists tend to avoid start up SMEs and instead focus on growing firms that show tremendous levels of potential. Given the motivation of venture capitalists, the investment agreements are usually structured in such a way that there is a close relationship with the investors; the venture has a level of control over the affairs of the organization and expects significantly high returns. To achieve this and ensure commitment, the venture capitalist would structure the agreement in such a way that the investor and/or management can only benefit when the firm is successful. Such an arrangement may take the form of low periodic rewards such as salaries and substantial rewards for profits or performance above a given threshold.
Business angel capital is a form of private capital provided usually by high net worth or wealthy individuals to an organization as capital on defined terms. Business angel capital is a less formal version of venture capital according to Berger and Udell (1998:619). Business angels usually have substantial experience in the management of firms and this comes in handy at the level of deciding on the firms to inject in resources. Funding from business angels is common as seed capital but also at the growth stage of the organization.

2.3.2 Debt sources of finance

Debt refers to the borrowed sources of finance which you can alternatively refer to as those funds raised through borrowing or loans. According to Brealey, Myers and Allen (2017:636), debt financing is a strategy designed to increase the rate of return on owner’s investment by generating a greater return on borrowed funds above the cost of using funds.

Borrowed funds can have different sub categories including: bonds and debentures, loans from banks and other financial institutions, lease financing and mortgage finance. According to Gitman et al. (2012:239), a bond is a long term debt instrument indicating that the firm has borrowed a defined amount of money and promises to repay in future under specified terms and conditions. As a source of finance the firm will issue a bond with a defined face value, coupon rate and maturity period. Issuance of a bond is guided by the legal regime in the country with a legal document or deed spelling out the rights and responsibilities of both the issuer (firm) and the investor or the one buying the bond. Just like any other investment, bondholders lend money to the firm at a risk, which risk must be calculated carefully. Since bonds are usually raised by firms that are listed on the stock exchange, they carry a lower perceived risk given the legal regimes and regulations guiding such exchanges in the protection of the investors.

Debentures is another source of borrowed funds to the organization. According to Gitman (2004:279), a debenture is a form of unsecure bond, meaning that it is not backed by security but the credit worthiness and credibility of the firm. The debenture holder is in most cases at risk with the safeguard being the goodwill and reputation of the issuing firm. This means that in comparison with the normal bond, a debenture carries with it a higher level of risk. As with normal bonds, companies listed on the stock exchange find it a lot easier to issue debentures than those not listed on the stock exchange.
Loans from banks and financial institutions are a form of borrowing which the organization arranges from one specified source and on defined terms and conditions. These loans are usually given on the market rates and/or terms basing on the organization’s relationship with the bank and the negotiation power. One can view a bank loan as credit granted where the money is disbursed to the borrower and its recovery is over a defined future period. Usually such credit is granted for a defined purpose and period with interest being charged on the loan amount at an agreed upon rate. Loans from banks and the financial institutions can be easily accessed by any firm regardless of it being or not being listed on the stock exchange.

Lease financing is a source of borrowed finance with a contract between the lessee and the lessor, where the lessor gives the lessee a right to utilise an asset for a substantial portion of the asset life in return for payment of lease rentals by the lessee (Brealey et al. 2017:652). Usually the contract may contain a clause to allow the lessee own the asset or return it at the end of the lease period. Under a finance lease arrangement, the lessee enjoys all the benefits and bears all the risks associated with the leased asset for a substantial part of its life span (Orabi 2014:35). As with loans from banks and financial institutions, any firm regardless of its status of listing on the stock exchange can easily arrange for a finance lease.

Mortgage finance is another source of borrowed funds usually used to finance an acquisition of assets especially immovable assets in the real estate business. According to Gitman (2004:279), a mortgage is a secured bond whose security is the property being acquired. According to McDonald and Thornton (2008:32), the term mortgage finance is just a name given to a real estate loan that has a promise to repay a sum received today at a future defined period. McDonald and Thornton (2008:31), assert that the term mortgage, comes from the French language literary meaning “dearth vow”, meant to imply that the loan must be repaid to nil balance at the end of its maturity period. Basically a mortgage will contain basic information about the borrowed amount, the loan period, repayment schedule and the interest rate. Just like the foregoing two sources of borrowed funds, mortgage finance can be arranged by any firm including those not listed on the stock exchange.

As observed above, borrowed sources of funds are those that provide funding for a defined period of time on defined terms and conditions. In an organization set up, this may prove a burden to the organization as it keeps paying a defined amount as interest
over that period. However, if the firm is doing well, it can also generate a reasonable return on the borrowed funds.

2.3.3 Internal and external sources of finance

Internal and external sources of finance as a categorisation, may not give substantively new financing sources but it instead reclassifies a source as either internal or external depending on the influence of the organization over that particular source. Internal sources of finance are those that are within the control of the management of an organization and these will mainly include the retained earnings and to some extent share capital if the existing shareholders are the only ones contributing towards the raising of additional capital such as through a bonus issue (Sogorb-Mira 2005:7).

The external sources of finance are those sources that lie outside the control of the management of an organization with management’s contribution being limited to the option of accepting or rejecting the source at the defined terms and conditions. External sources probably contain a wider range of possible financing options. These sources are normally approached where the internal sources are insufficient to cater for the investment requirements (Sogorb-Mira 2005:17). External sources may include: Equity that is raised from investors other than the current shareholders, loans from individuals and financial institutions, any kind of bond borrowing and lease financing.

2.3.4 Long, Medium and Short-term sources of finance

Just like internal and external sources of finance classification, classification of finance sources according to the basis of period may not necessarily bring upon new and distinct sources from the debt and equity sources but rather it leads to reclassification of the different sources along different lines.

Long term sources of finance generally refer to those sources whose availability or usefulness is for a period exceeding five years and these may include: equity sources, retained earnings and any kind of borrowing whose availability meets the requirements for a minimum period of five years.

Medium term sources of finance also referred to as intermediate sources of finance, are those sources whose availability to the organization is for a period between one year and five years. These may also have such examples like loans from banks and other financial institutions, bonds of any nature within the time lines and lease financing.
Short term sources of finance are those sources of finance which may not fit within the capital structure, meaning they are substantively used for operational purposes. Such sources present funding to the organization for a period not exceeding one financial year. These sources may include: trade credit, debt factoring, operating leases, bank loans, bank overdrafts and customer advances.

Trade credit simply means that form of financing extended to the firm by its suppliers when they allow the organization to meet its obligation over an extended period of time hence avoiding immediate cash settlement. Much as the supplier may embed the cost of finance in the price at which the supplies are made, it saves the organization the cost of alternative sources.

Debt factoring is a source of short term finance where a firm uses its debtors as security to receive an advance payment of the amount due from the debtors through a debt factoring house. The firm uses its outstanding debtors to obtain funding from a debt factoring house and passes on the responsibility of collecting the debts to the debt factoring house.

Operating lease is an arrangement between a lessor and lessee where the lessor agrees to let the lessee take possession and use of an asset belonging to the lessor in return for payment of lease rentals. An operating lease unlike the finance lease which is long term is for a small proportion of the life span of the asset.

Bank loans and overdrafts originate from financial institutions with a bank loan being the actual transfer of a defined amount of money onto the firm’s bank account with a view of the firm repaying it back on the agreed upon terms. On the other hand, an overdraft is simply an arrangement where the bank allows the firm to draw more than the amount on its account on agreed upon terms and conditions.

Customer advances are arrangements between a firm and its customers where the customer keeps depositing money with the firm in anticipation of future consumption of the goods and services provided by the firm. It is a source of short term finance to such firms with those arrangements as it avails resources to the organization but also a way of facilitating trade by softening the terms of trade for the customers.

All the different categorisations and classification of the sources of finance apply to all firms regardless of size. However, some sources may be more attractive to the small and medium enterprises due to the characteristics of these organizations.
2.4 SMALL AND MEDIUM ENTERPRISES

Coming up with a clear definition of Small and Medium Enterprises (SMEs) is a controversial issue in literature with differing attempts being made at different levels (Abor & Quartey, 2010:219). Small and Medium Enterprises (SMEs) have been defined in different ways from one region and country to another. What can be noticed clearly is that most definitions are based on factors such as number of employees, annual turnover and asset values (Kayanula & Quartey, 2000:3; Dalberg 2011:6). According to Storey (1994), there is a danger that using size to define the status of a firm may lead to all firms in one sector being classified as small while in others, there would be none qualifying as a small firm.

According to Ayyagari, Beck and Demirgüç-Kunt (2005:3), the World Bank defines SMEs as those enterprises having a maximum of 300 employees, generating a maximum of US$ 15 million as annual turnover and having a maximum of US$ 15 million in value of assets. The OECD SME and Entrepreneurship Outlook 2005, defines SMEs as non-subsidiary, independent firms which employ fewer than a given number of employees varying across countries but the most frequent upper limit being 250 employees within the European Union. In the African context, the African Development Bank (AfDB) defines SMEs as enterprises with not more than 50 employees (Gibson & Van der Vaart 2008:8).

In South Africa, Falkena et al. (2001), indicate that the SME definition emanates from the national small business act of 1996 where small enterprises have an upper limit of 50 employees with less than Rand 2 million to Rand 25 million depending on the industry while medium enterprises have an upper limit of 100, or 200 for the mining, electricity, manufacturing and construction sectors and R4 million to R50 million again depending on the industry.

According to Nkonge (2013:195), in Kenya, small and medium enterprises or small and medium-sized enterprises are companies whose personnel numbers, working capital and assets, annual turnover fall below certain limits. He asserts that SMEs in Kenya are based on employment size; with a small enterprise being defined as having 11 to 50 employees and a medium enterprise with more than 50 employees.

In Uganda, SMEs are classified distinctively between small and medium enterprises. Small enterprises are defined as those employing a maximum of 50 individuals, with working capital of less than Uganda Shillings (UGX) 50 million and turnover not exceeding
Uganda Shillings (UGX) 50 million per annum. Medium sized enterprises are those employing between 50 and 100 employees (Kasekende and Opondo, 2003:2). One can then conclude that SMEs in Uganda are those with a maximum of 100 employees. Using the literature regarding the numerous definitions of SMEs, one can conclude that SMEs are generally independent firms operating with relatively small asset base, individually with negligible market share, employing a relatively small number of workers and in some cases managed by the owners.

Reviewing the definition of SMEs presents a number of challenges and these can closely be looked at when each variable in the definition is isolated and analysed on its own.

The use of the number of employees presupposes that the number of employees in an organization is directly related with the actual economic size of the organization. This may not be the case given the differences in the firms within different sectors with some being labour intensive while others are capital intensive. On the positive side, the number of employees may directly contribute towards economic growth through the earnings of such employees. However, with the current technological advancement where robots are replacing humans, it may become a challenge to use this parameter to define SMEs unless there is continuous review of the same.

The use of assets as a basis for classifying SMEs presents similar challenges to use of employees where organizations are in different sectors with different levels of capital intensiveness. Additionally, the definition of capital may be ambiguous especially as economies advance with tangible and intangible assets causing confusion. Furthermore, in countries with high levels of inflation, the asset values may vary greatly within the same period leading to one firm belonging to two different categories within the same period.

The use of annual revenue which seems more realistic than the first two measures may also be faced by the challenge of inflation highlighted above and as such in two different periods, a firm may oscillate between small and medium categories as turnover increases and/or reduces.

For purposes of this study, the operational definition of SMEs adopted is that of Kasekende and Opondo (2003:2) where small enterprises are defined as those employing a maximum of 50 individuals, with working capital of less than Uganda Shillings (UGX) 50 million and turnover not exceeding Uganda Shillings (UGX) 50 million per
annum while medium enterprises are those that employ between 50 and 100 individuals with total assets of more than UGX100 million but not exceeding UGX360 million.

2.4.1 SMEs role in the economy

SMEs generally form a vital part of many countries’ economies (Peter and Naicker, 2013:14) in terms of contribution to Gross Domestic Product (GDP), as a source of employment as well as a source of livelihood for citizens of these countries and as engines of economic development. According to Ayyagari, Demirgüç-Kunt, and Maksimovic (2011:2), it is estimated that the majority of all firms worldwide are SMEs and their total contribution to employment is at around 60% of private sector employment. France, Germany and Japan had the highest proportion of SMEs among the developed countries at a rate of over 99% by the year 2007 (EIU (2010). Generally, the contribution of SMEs to the economies of developed countries is estimated at over 55% of GDP and over 60% of employment. According to Foreman-Peck et al. (2006:310), in all advanced economies, SMEs produce a high proportion of the national output and even greater proportion of employment. In recognition of the role of SMEs to economies, OECD (2009:56) indicates that support to SME growth was introduced way back in the 1940s for some countries through targeted policies on grants, subsidized credit and tax incentives for SMEs. In addition to these, SME support agencies such as publically funded SME agencies were set up in Japan in 1948, USA in 1953, India in 1954, Tanzania in 1966 and Turkey in 1976. This is in line with the assertion by Geho and Flakes (2013:98) who indicated that to have a sustainable positive impact on SMEs, stimulus programmes must be created, and programmes may include facilitation of credit and tax incentives.

According to Mullineux (1997:28), even in the developed industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers. Gujrati (2013:86) argues that there is increased interest in the SMEs as an engine of economic development due to the notion that they create more jobs than the large enterprises as well as the flexibility that SMEs provide to the economies as they grow. The flexibility allows for innovation and hence overall country growth and development. Gujrati (2013:89) argues that creating an environment that encourages many small businesses to prosper may be a better strategy than luring one or two large corporations. This creates hope that new jobs will be created and with the innovation, new products and services will come into play over time. Stan (2014:165) seems to also be in agreement when he
states that in highly competitive global economy, companies that innovate, customize products and adapt quickly to changing circumstances would have an edge and the SMEs seem to be strong in this area. Additionally, Uma (2013:120) agrees with the above arguments and states that SMEs represent a model of economic development with maximum contribution to domestic production, significant export earnings, low investment requirements, employment generation, and effective contribution to foreign exchange earnings with low import intensive operations.

According to Uma (2013:120), in the Indian sub-continent, which is a major manufacturing hub for the world, small scale industries alone which are a subset of SMEs contribute up to 35% of the total manufacturing exports and is only second to agriculture in employment provision. According to Gutter (2001:89), SMEs contribute greatly to a stable economic environment and to the development of the economy but to achieve stable economic development, SMEs need support. Support may take the form of financial and consulting services to help them overcome difficulties during the start-up phase or to carry out their normal business activities.

Literature on SMEs in the developing world is not as readily available as that from the developed countries. Among the middle developing countries, South Africa’s proportion of SMEs is estimated at 91% of all firms in the country (Abor & Quartey, 2010:224), while India’s proportion is estimated at 80% of all formal businesses (Ghatak, 2010:2). According to Oduntan (2014:76), SMEs in Nigeria contribute greatly to:

- Capacity building by providing a platform for training of local entrepreneurs which he equates to a university where vast entrepreneurial skills are gained.
- Employment generation largely because their mode of operation is usually labour intensive.
- Promoting growth of the economy as a result of largely depending on the supply of locally sourced inputs.
- Industrial dispersion as a result of their ability to germinate from any part of the country and most especially the rural areas.
- Technological and industrial development which is as a result of their short gestation period for the ideas that they develop and this promotes local based solutions.
• Technological adaptation through their use of existing technology and adapting it to local environment hence its improvement locally.

• Poverty alleviation through the provision of opportunities specific definitions.

It goes without saying, that SMEs are major contributors to their economies in the developing countries with 75% of all businesses being in the category of SMEs in Kenya contributing over 50 percent of new jobs created in the year 2005 (Bowen, Morara & Mureithi 2009:16). According to Wanyama (2013:29), SMEs are looked at as one of the means to spur economic growth and this is recognised in Kenya’s vision 2030 especially in creation of informal employment opportunities. Aboagye (2004) cited in Wanyama (2013:28), had earlier on confirmed that the largest proportion of SMEs are in the food and service sectors where they provide apprenticeship to ordinary citizens in garages, metal welding and related services. Aboagye (2004) cited in Wanyama (2013:29), further argued that SMEs play a pivotal role in creating marketable skills for Kenyans and this is for both literate and illiterate individuals. For the literate individuals, it is noted that graduates are devoid of skills that are required in the market owing to the conceptual nature of training in Kenya and it is this gap that SMEs help to close by equipping such graduates with practical skills through apprenticeship. On the side of the illiterate individuals, SMEs provide a platform mainly for the unskilled youths that join urban areas due to the rural urban migration to etch a living in highly competitive urban centres. SMEs have also been havens for those individuals in Kenya who leave formal employment. Such individuals according to Aboagye (2004) cited in Wanyama (2013:29), take advantage of the weaknesses of the formal sector to provide similar services on better terms using the SMEs platform.

2.4.1.1 SMEs role in the economy of Uganda

In Uganda, SMEs contribute up to 70% to the National GDP (Obanda 2011:2413). Additionally, Kasekende and Opondo (2003:2) supported by Ishengoma, and Kappel (2008:17), SMEs in Uganda have created opportunities for employment especially for the rural and sub urban poor while at the same time creating an opportunity to generate knowledge. Estimates by different authors such as Tushabomwe (2006:27), as well as Tusubira and Nabeta, (2013:133) indicate that in Uganda SMEs employ anywhere between 2 million to 4 million individuals. According to Tusubira, and Nabeta (2013:133), SMEs contribute 75% of GDP and constitute 90% of the private sector. They also argue
that SMEs contribute enormously towards improving standards of living as well as ensuring social and political stability. This is in line with the conclusion by Wanyama (2013:29) who asserts that SMEs are responsible for entrepreneurial development, poverty alleviation and improved quality of life, resource mobilization, business adaptability and sustainability. According to Uwonda, Okello and Okello (2013:68) SMEs in Uganda are seen as the engine of economic growth due to their contribution towards poverty reduction, tax payment and generation of new innovative Idea. This is assertion is in line with the arguments by Sebikari (2014:1) who posits that Uganda’s economic success is as largely as a result of its SMEs.

It is for the prevalent importance of SMEs to the different economies that a number of countries have introduced targeted policy interventions in support of SMEs, according to OECD outlook report 2004. These interventions may include: grants, subsidised credit, tax incentives, capacity building and other forms of support to facilitate the growth of SMEs. According to OECD outlook report 2004, a number of countries have established Small business or SME Support agencies and these include: Japan in 1948, USA in 1953, India in 1954, Tanzania in 1966 and Turkey in 1976. These are in recognition of the importance of SMEs to these economies.

2.4.2 Profitability and sustainability of SMEs

Most SMEs are started by their owners with a view of amassing wealth and the short term indicator of this objective being achieved is the profitability of the business undertaken by the SMEs. On the one hand, Tulsian (2014:19) defines profitability as the ability of a given instrument to earn a return from its use. On the other hand, Onyam, Usang and Eyisi (2015:85) define profitability as the ability to make profit from all the business activities of an organization, company, firm, or an enterprise. Alternatively, profitability can be defined as the extent to which a firm generates a return from the factors of production that it deploys in its activities. Profitability of a firm’s business is critical to the growth and continued survival of that organization and this is more prevalent among SMEs.

According to Farah and Supartika (2016:132), profitability of a company shows a company's ability to generate earnings for a certain period at a rate of sales, assets and capital stock. SMEs usually take on high risk businesses and as such incur higher financing costs (Farah & Supartika, 2016:135). A study by Farah and Supartika (2016:132) found that firm size, asset value and firm age were key factors in affecting a
firm’s profitability. This means that SMEs by the nature of their asset composition and size have a lot of variability in their profitability levels. According to the European Central Bank monthly bulletin on monetary and economic development of 2013, SMEs tend to be less profitable than large firms and have considerably higher cash holdings, largely because of the financing cost. According to Stan (2014:169), the flexibility and dynamic nature of SMEs makes it easy for their profitability to oscillate between periods but still return to normal profitability over time. This is largely explained by the high level of risks associated with their business operations. Stan (2014:169) further argues that the wave of globalisation; which is the growing impetus to think and act global is likely to be one of the most important developments towards the profitability and sustainability of SMEs in future. This is partly because with globalisations, firms seek foreign markets and the global thinking makes it possible for firms to not only produce for their local market but also the global market which may make it easier for these firms to expand and grow into bigger and more efficient organizations. The ever changing technology advancement worldwide is making it even easier for the SMEs to improve on their connectivity with other firms, individuals and governments. It is also making it easier for such firms to afford cheap means of production, accessing market information, studying customer preferences as well as accessing new ideas and innovative trends globally. Hence, with SMEs seeking foreign markets through the improving connectivity of markets across the world, definitely globalisation is a gem for SMEs in ensuring improved profitability, growth and sustainability.

According to Carree and Thurik (2010:557), small firms exhibit relatively higher levels of growth than large firms and act as risk absorbers in the economy against turbulence where in this role, they promote economic growth generally in the economy at the expense of their survival rates. It is through this role that SMEs become the engines of economic growth and development.

Given the nature of SMEs’ contribution to different economies, it is important to note that any effect on the profitability of these organizations will have a ripple effect on the economy through their linkages with other SMEs, large organizations as well as Governments. This is in line with the assertion by Mead (1998) that the health of an economy has a strong positive relationship with the health of SMEs.

According to Markman and Gartner (2002:67), profitability has advantages as a measure of long term sustainability of SMEs as it has a strong positive relationship with growth.
The position taken by Yazdanfar (2013), as quoted by Farah and Supartika (2016:132), argues that measuring profitability is the most important means for assessing the success and hence sustainability of an undertaking. Therefore, if the SME is pursuing profitability, chances are high that such a firm will grow and most probably survive in the long term. This is evidenced by those firms that usually grow fast as a result of entering a market on large scale compared to those which enter at a low scale and then take long to grow into bigger firms.

### 2.4.3 Financing SMEs and their access to finance

The financing decision is one of the key financial management decisions in any organization (Gitman 2004:356) and this is an important function to all SMEs. There are different sources of finance that can be accessed by firms but the access itself will depend on a number of factors not least of which will be the size of the organization, reputation and the economic conditions at any given point in time. According to Berger and Udell (2006:2947), most SMEs rely on internal funding sources, mainly the owner funding in the form of equity as they find it challenging to access funding from financial institutions. This reliance on internal funding sources in some cases may be as a result of the owners’ desire not to lose control. According to Abdesamed and Wahab (2014:717), in most developing countries, banks are reluctant to extend loans to SMEs due to lack of credit history and collateral security. The above environment obstructs the firms’ access to debt financing (Gallardo, 1997).

In most developing countries, there is a high level of reliance on informal financing sources for SMEs against the formal financing sources (Badri, 2006). The European commission report on SME’s access to finance survey of 2013 concluded that access to finance is the second most pressing problem mentioned by 15% of EU SME managers. The OECD Scoreboard (2015:283) found that access to finance by SMEs is still a challenge in a number of countries despite the easing credit conditions. According to Quaye and Sarbah (2014:124) while quoting a study by Mambula (2002), lack of access to finance is a major obstacle faced by SMEs and this was collaborated by Ghimire and Abo (2013:30) as well as Ayyagari, Beck and Demirgüç-Kunt (2005:4) who added that this is so, for start-up capital as well.

In Uganda, SMEs most formally registered SMEs tend to be located in Urban and peri-urban areas (Kasekende and Oondo 2003:3). Ideally this would make it easy for such firms to easily raise finance from financial institutions. Unfortunately, this is not the case...
as most SMEs still find it a challenge to obtain funding from formal sources (Kasekende and Opondo 2003:3). All the same a number of financial institutions have over time created products that are meant to ease access to finance by SMEs in Uganda. Bank product such as asset financing, a with attributes similar but not same as both finance leasing and hire purchase are common among different banks in the country.

2.4.3.1 Challenges faced by SMEs in accessing finance

In the process of trying to access funding, SMEs face different challenges most of which are associated with the characteristics of these organizations and the governance structure associated with them. According to Berry, et al. (2002:39-48), the lack of awareness as well as the perceived high risk associated with lending to SMEs have been a result of the failure by financial institutions to establish communication with these SMEs. Several studies including Apire (2002), Olomi (2009), Griffiths (2002) and Ruffing (2002) as quoted in Ghimire and Abo (2013:32) indicate that inadequate flow of information, inadequate collateral, SMEs-Banks relationships and information asymmetry are the major challenges faced by SMEs while trying to access funding. Falkena, et al. (2001) argue that the lack of information, lack of a supportive legal framework, and a regulatory bias in the allocation augment the challenges faced by SMEs.

According to Beck et al. (2008:383), SMEs generally lack appropriate finance and may require special attention due to the inherent informational opaqueness associated with their activities. The information asymmetry associated with SMEs and financial institutions seems to be exaggerated by the inadequate financial record keeping culture of SMEs as identified by different researchers such as Berry et al. (2002:67), and Nanyondo et al. (2014:6). Other factors that have been highlighted as contributing towards the limited access to funding by SMEs include; the lack of collateral for security to use in order to access credit or finance from the formal lending institutions as observed by Apire (2003) and Griffiths (2003) among many researchers quoted in Ghimire and Abo (2013:32) are clear obstacles faced by SMEs.

The inadequate human capital among the SMEs leading to lack of the requisite skills to manage as well as produce proof of sustainability of their operations has been identified as another impeding factor limiting SMEs’ access to finance as highlighted by Kasekende and Opondo (2003:3-4) as well as Tusubira and Nabeta (2013:141) in the case of
Uganda. The factors that present challenges to SMEs in Uganda towards accessing finance have been enumerated to include; inadequate collateral, information opaqueness, human resource capacity and affordability (Turyahikayo 2015:24).

It leaves no doubt in anyone's mind that SMEs face many challenges, yet they make the biggest contribution towards economic activities of any country. These challenges negatively affect the financial sustainability of most SMEs in the long run.

2.4.3.2 Financial sustainability and SMEs

Sustainability in the organizational context can broadly be looked at from the perspective of institutional sustainability. Navajas et el (2000:337) define sustainability as permanence. Schreiner (2000:426) on the other hand defines sustainability as the ability to repeat performance through time. Brinkerhoff and Goldsmith (1990:13-14) coined their definition of sustainability as a system with the ability to produce output that is sufficiently well valued so that enough outputs are provided to continue production. However, the same authors (Brinkerhoff & Goldsmith, 1990:20) also argue that the term “sustainable institutions” is redundant since by nature institutions are expected to continue in existence. That sustainable institutions are those that meet one or more of the following criteria; first, being able to recover some of their costs and possibly even be self-financing; secondly, supply a continuous stream of benefits and/or survive over time as identifiable units.

From the above authors, there is clearly no black and white definition of sustainability but simply indicative parameters that can guide one to gauge the institutional sustainability of any identified organization. What is fronted is the fact that financial sustainability is simply one of the components of institutional sustainability. The aspect in connection with financial sustainability that is proposed by Brinkerhoff and Goldsmith (1990:20) is the ability of a firm to recover some of its costs and possibly be self-financing.

Other scholars have made their contribution towards the understanding of financial sustainability as well. Rymanov (2010:16) views financial sustainability as an organization’s ability to survive in the long term represented by its system of financial and economic relationships being in position to create, allocate, and use funds in support of providing solvency in the long term. Dunford (2000:44) defined financial sustainability in the context of Micro finance institutions as the ability to operate and achieve microfinance objectives without any support from donors. Meanwhile Khandker, (1996:70) posits that
financial sustainability defines the ability of an organization to continue its operations owing to the ability to cover operational, financial and administrative costs. He argues that a firm can only attain financial sustainability if its cost per unit is matched to its revenue per unit. Generally, sustainability refers to continuity which in one way can be looked at from the age of an organization but also the transformation of an organization from one form to another as it portrays the characteristics that it has attained the ability to continue in existence and that it is bound to continue generating value to society and the shareholders. This sustainability as elaborated above is looked at in the context of the organization life cycle for SMEs in Uganda.

2.5. ORGANIZATIONAL LIFE CYCLE

Organizational life cycle refers to a series of stages that an organization goes through from inception through growth, and maturity to decline at the extreme end (Tam, & Gray 2016: 25) in the footsteps of a product life cycle (Wong & Ellis, 2007:3-4). According to Karniouchina, Carson, Short and Ketchen Jr. (2013:1011), life cycle is principally made up of growth, maturity and decline. A close analysis points to the fact that at the time when the business of an organization is growing, it can be taken to be in the growth stage. When the change in the business stagnates over a given period of time, the firm would be in the maturity stage while when business is consistently declining, the firm would be in the decline stage. In the case of firms including SMEs, the different characteristics at each stage makes it critical for financing decisions to be taken in consideration of the needs of that firm at each stage since the needs differ substantially. The different stages and their characteristics are elaborated in the sections that follow.

2.5.1 Introduction stage

The introduction stage is characterised by the start-up phase where the firm is still finding its footing within the market. The firm is highly flexible at this stage and creativity and innovation is at the core of its operation with minimal structures and systems in place. According to Hanks et al. (1993:16), at this stage of the life cycle, we have a small firm having a simple organizational structure with less than 3 organizational levels. There is high centralisation of the firm’s business with little or no specialisation. At this stage, product development is at the centre of the firm’s operation. The growth in sales may be quite substantial given the low or total lack of base for reference. According to Lester et al. (2003 cited in Lipi 2013:60), at the Introduction stage, the organization is aiming at
creating a customer base to survive. The decision making and ownership of the firm are highly intertwined.

2.5.2 Growth stage

According to Kreng and Chiu (2011:7573), firms at this stage lay more emphasis on growing and expanding their market share. It is at this stage that detailed organizational policies and structures are initiated by management as the firm sorts out what its purpose for existence is.

Hanks et al. (1993:18) argued that at this stage the organization has evolved with a reasonable organizational structure whose levels may be less than 4. The firm is still centralised but with a more formal structure than the previous stage. There is a level of functional specialisation and the focus of the firm at this stage is the commercialisation of its products. Sales growth will be at its highest within this stage and employment growth may peak. Lester et al. (2003 cited in Lipi 2013:60), argues that the organization starts formalising its structure and the focus shifts from creating customer base for short term survival to customer base for long term survival. The firm aims at using its own income to finance its growth in the market.

2.5.3 Maturity stage

According to Kreng and Chiu (2011:7573), firms within the maturity stage emphasise minimising of production costs for the existing operations. This normally happens at a point where the market is saturated by other players and there is virtually no more room to expand market share. At this stage, the firm reaches its peak in terms of size as well as market share. Structure within the organization becomes the focus of management. According to Chenhall and Smith (1998) cited by Kreng and Chiu (2011:7570), the increased size of the organization creates a complex organization hence the focus on the structure; the notion to which Lester et al. (2003 cited in Lipi 2013:60) also agree. According to Hanks et al. (1993:20), firms in this stage are usually at their largest level within the life cycle. The organizational structure is complex with spread specialisation and decentralised functions. There is a lot of formality and bureaucracy at this stage as the centre labours to hold the organization together. The sales growth declines even if the sales may still be high in terms of market value.
2.5.4 Decline stage

Kreng and Chiu (2011:7573), argue that at the decline stage of the life cycle which is also called the revival stage, the intensive competition in the market decreases the profitability of the firm which forces it to focus on cost effectiveness and how to keep up the profitability levels. Hence, just like the maturity stage, issues of cost are taken serious at this level of the firm. A firm may pursue further diversity by trying out new products that may push it back to the introduction and growth stage in that segment or even pursue markets outside its current domicile. Hanks et al. (1993:22) gives attributes of a firm at this stage as one with divided structures with more power at the divisions/Unit/departments than at any other stage. The formality of the organization is at its peak with slow decision making under the big organization. Sales growth may be at its lowest with in this stage.

Despite the many limitations raised by some researchers about the organizational life cycle, there is consensus that organizations indeed go through the above characteristics over their life span and this makes it an interesting area for further study.

For purposes of this study, the firms in the study area are first classified according to their stages in the organizational life cycle before analysing the form of financing for the firms clustered in the same stage, in order to draw conclusions on the appropriate financing sources at each stage.

2.6 CONCLUSION

This chapter reviewed the available literature on financing of SMEs. The chapter started with coverage of the sources of finance in their different categorisations, followed by the literature on SMEs with emphasis on their role in the economy of any country before linking SMEs to access to finance. The chapter reviewed the concept of sustainability with a bias towards SMEs. The last part of the chapter reviewed the stages of the organizational life cycle paying particular attention to the attributes at each stage of the cycle. The clarity provided by the chapter regarding the financial environment and constraints within which SME’s operate, serves as the basis of the research design and methodology adopted for the study. The next chapter provides the empirical research methodology.
In addressing the theoretical objectives of the study, this chapter presents clarity on the effect of the capital structure on all the stages of the life cycle as per the existing literature. The chapter therefore clarifies on the mix of debt and equity that is expected at each stage of the life cycle right from start up to the decline stage. The chapter also presents light on what one would expect as characteristics of a firm at each of the stages of the organizational life cycle. The categorisation of the attributes of firms at each stage of the life cycle, supported development of the methodology by clearly pointing out the attributes to look out for in the categorisation of the firms from which primary data was collected as well as the instruments used in collecting this data.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter contains a detailed description of the methodology used in this study while developing a sustainable financing model for SMEs during the organizational life cycle in Uganda. The chapter starts with a discussion of the research philosophy and strategies, the research paradigms, discussion of the research approaches with the accompanying reasons for the use of the selected ones. This is followed by the research design used including the processes, population and sample selection, the data collection methods, instruments as well as the analysis. It also covers the validity and reliability measures as well as the ethical consideration during this study. Research methodology in this chapter is based on the definition by Leedy and Ormrod (2010:55), who define it as the general approach the research takes in carrying out a research project.

3.2 RESEARCH PHILOSOPHY

According to Saunders, Thornhil and Lewis (2009:107), research philosophy relates to the development of knowledge and the nature of that knowledge. An understanding of the research philosophy is important to the research process and it helps to clarify on what is done and how it is done during the study, (Johnson and Clark 2006). Research philosophy can be looked at as the different views of the world and the processes that exist within it but with a focus on knowledge generation, existing knowledge and world reality. Dainty (2007:1) argues that a researcher constructing his or her philosophical position and orientation is a fundamental task that should be clarified on in the initial stages of any study. Hence, for any researcher a clear understanding of their perception of reality is critical as it affects the way they gain knowledge and how they act on that knowledge or interpret it. This is because research is anchored in the research philosophical assumptions as defined by the researcher’s perception of reality. Saunders et al. (2009:108) argue that these philosophical assumptions underpin one’s research strategy as well as the methods chosen for the study. Different scholars such as Saunders et al. (2009:109), Easterby-Smith, Thorpe, and Lowe (2004:31), indicate that such philosophical assumptions can be looked at from two major ways and these are ontology and epistemology.
Saunders *et al.* (2009:110) defines ontology as the nature of reality and that ontology leads to the assumptions taken by the researcher about the way the world operates and the commitment held to particular views. From the perspective of Easterby-Smith *et al.* (2004:31), ontology is a science that explains being and existence. This means the researcher’s perception on the nature of the world out there. In line with the above, Bryman, Bell, Mills, and Yue (2011: 20) state that ontology leads to consideration that either the social entity has reality external to the decision makers or social actors also referred to as objectivism or that its social constructs are shaped by the actions of the decision makers or social actors referred to as subjectivism (Saunders *et al.* 2009: 110). Hence, ontology is about how the researcher sees the relationship between social actors and social entities in which they operate. The objectivism branch of ontology is the position that social entities exist in a reality external to the social actors or decision makers. This implies that management follows laid down procedures and rules while taking decisions and this implies that decisions taken are objective and free of bias strictly following the organization’s rules, guidelines, systems and procedures in place.

On the other hand, Saunders *et al.* (2009:111) argue that the subjectivist view is that social phenomena are created from the perceptions and consequent actions of social actors. Additionally, they argue that this is a continual process in that through the process of social interaction these social phenomena are in a constant state of revision. This process of continuous change has brought about what one would argue as a middle stance of Social constructivism. According to Darlaston-Jones (2007) cited in Assantey (2014:11), ontological considerations make way for setting up criteria for what really exists and ensuring that what is discovered in a scientific enquiry really exists.

Epistemology is that branch of research philosophy that deals with the study of nature and the scope of knowledge (Khin, Ying, Meng, & Fatt, 2011:874). Hence, Epistemology deals with what people know and how they have come to know what they claim to know.

Epistemology is critical in any research study because it clearly defines the philosophical grounding of the researcher regarding the existing knowledge (Khin *et al.* 2011:876). Therefore, as ontology argues about what really exists, epistemology argues about how what exists can be known. When a researcher takes firm and appropriate ontological and epistemological stance, it creates confidence for a reliable methodology in a field of enquiry.
Given that this study has a social science background, objectivity is at the core of the researcher’s philosophical standing. Hence, the philosophical inclination of this study is on objectivism as the ontology. It is however important to note that the study is not purely on the objectivity standpoint but rather a strong bias towards it as per the discussion within this very chapter.

In line with the research philosophy, research undertaken in the natural and social sciences arena can take on different research paradigms that are part of the entire philosophy. The most common paradigms are the positivism and interpretivism paradigms.

### 3.2.1 Research paradigms

A research paradigm can be looked at as a whole system of thinking (Neuman 2011:96) or a system in terms of which people see events (Fellows & Liu 2003). According to Neuman (2011:96) and Mouton (1996:203), paradigm is an idea made famous by Thomas Kuhn through his book titled ‘The structure of scientific evolution’ first published in 1962. Research paradigm according to Neuman (2011:96) includes basic assumptions, the important questions to be answered or puzzles to be solved, the research techniques to be used, and examples of what good scientific research is like. Despite some variations among authors, there is a common thread in how a number of them look at research paradigm.

Some authors such as Creswell (2009:16); Babbie (2010:33); Rubin and Babbie (2010:15) look at paradigm as including the accepted theories, traditions, approaches, models, frame of reference, body of research and methodologies adopted by a research. A paradigm is the entire system that guides action in research. The two major research paradigms are: positivism sometimes referred to as normative, quantitative or scientific and interpretivism also called social constructivism or anti-positivism.

**Positivism:** This is the view that the social world exists externally to the researcher (Gray 2014:21) and its properties can be measured directly through observation and/or other measurable approaches. Hence positivism is entrenched in the belief that knowledge can be generated on the basis of observation by one’s senses combined with the ability to measure and record the phenomena which in itself means basing on empirical evidence to generate new knowledge. By implication, positivists would argue that what cannot be observed or measured such as people’s thoughts and attitudes would not suffice as
evidence of knowledge. Those in this school of thought believe that the world is concrete, defined and real, calling for the separation of the researcher from the research object to allow for objectivity creating a passive role for the researcher thereby personal bias not affecting the findings of a particular study (Khin et al. 2011:875). Additionally, the observations according to the positivists, should be repeatable under similar conditions and it is this property that allows for prediction of relationships among research subjects basing on previous observations. According to Kosolaki (2012) cited in Assantey (2014:16), the fundamentals of positivism are rationalism and empiricism and these usually embrace deductive and quantitative research paradigms (Crotty 1998:6). According to Khin et al. (2011:876), there is a great deal of preoccupation with causality, internal validity, replicability, reliability, generalizability and operationalism by the positivist researcher which on the other hand subjectivist researchers undermine.

Gray (2014:22) concludes by giving three principles under positivism; first, that reality consists of what is available to the senses and can be seen, smelt, touched and hence measurable and recordable. Secondly, that inquiry should be based upon scientific observation with empirical evidence and thirdly that both natural and social sciences share common logical and methodological principles while dealing with facts and not with values.

With positivism, ideas only deserve to be incorporated into knowledge if they can be put to attest of empirical experience. Clearly as observed from above, positivism is at the back of most studies carried out by natural scientists and some social scientists. Definitely it goes without question that positivism has its own limitations especially in the area of objectivity and absolute reality which cannot be guaranteed in any inquiry.

**Interpretivism:** This is the belief that the world is by nature subjective and that the actions of the people in it affect what happens and the knowledge that emanates from it, rather than being looked at as a pack of externally observable facts (Easterby-Smith et al., 2004:40). This school of thought is based on the fact that there is no direct relationship between the actors and the objects in the world but rather that the world should be looked at as being interpreted from the classification of schemas of the mind as argued by Williams and May (1996). According to Carter and Little (2007), cited in Assantey (2014:17), interpretive researchers are of the belief that it is not possible to make objective statement about the real world because there is no such a thing as a real world but it is only socially and discursively constructed. Therefore, it is only through the subjective
interpretation and intervention of occurrences that reality can be fully understood. This creates room for differences for various interpretations of reality, which proponents argue are as a whole, part and parcel of knowledge. Clearly, the interpretivism emphasises a situation in which the researcher is involved through his or her experience, actions and attachment of meaning to responses and/or observations. The researcher’s work becomes more of understanding than explaining the changes as and when they occur during the study, which is central to the positivist researcher whose major aim is to explain.

Gray (2014:23) provides three tenets of interpretivism and these include: the first being that people interpret the meaning of objects and actions in the world and then act upon those interpretations. Secondly that meanings arise from the process of social interaction and lastly that meanings are handled and modified by an interactive process used by people in dealing with the phenomena that are encountered. Gray (2014:23) further argues that interpretivism has five approaches to its name including symbolic interactionism, phenomenology, realism, hermeneutics, and naturalist inquiry. These further help to explain the diversity, flexibility and scalability of this school of thought. The major point of contention of interpretivism is the fact that validity of the research finding is in some cases doubtable by an independent individual less exposed to the details of the research until the person is convinced by the researcher. Proponents of positivism have argued that use of interpretivism merely offers opinions of subjective judgement from the researcher due to the inability to judge the validity of the knowledge generated.

Comparing positivism and interpretivism, Levy (2006:376) brings out four areas of epistemological differences based on the work of Carson, Gilmore, Perry and Gronhaug (2001). These are summarised in the table below.
Table 3.1: Epistemology differences between the paradigms

<table>
<thead>
<tr>
<th>Epistemology</th>
<th>Positivism</th>
<th>Interpretivism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of being: Nature of the world</td>
<td>Direct access to the real world</td>
<td>No direct access to real world</td>
</tr>
<tr>
<td>Reality</td>
<td>Single external reality</td>
<td>No single external reality</td>
</tr>
<tr>
<td>Grounds of Knowledge between reality and research</td>
<td>You can obtain hard secure objective knowledge</td>
<td>Understood through perceived knowledge</td>
</tr>
<tr>
<td>Research focus</td>
<td>Focus on generalisation and abstraction</td>
<td>Focus on the specific and concrete</td>
</tr>
<tr>
<td>Research approach</td>
<td>Governed by hypothesis and theories</td>
<td>Specific context driven</td>
</tr>
</tbody>
</table>

Source: Levy (2006)

Supporters of each school of thought have made varying arguments as to why one paradigm is superior or why another is inferior with major arguments rotating around objectivity and the possibility of divorcing totally from the subject being studied. The arguments tend to lean towards quantitative approach to carrying out research and others the qualitative approach, each with their own arguments.

This study adopts the mid ground of using both the quantitative and qualitative approaches to research. This by implication means that the research will subscribe to the advantages of both the positivism and interpretivism paradigms. The section below explains the rationale for this approach.

3.2.2 Discussion and rationale for research philosophy and paradigm of choice

Close analysis of the major paradigms will lead to a conclusion that full adoption of one to its core fundamentals may not be realistic in a number of studies. Possibly it is for this reason that a number of variations, sharing characteristics of each of these two have been developed by researchers. One of such a variation is called soft-positivism as fronted by Kirsch (2004) who argued that soft-positivism is similar to positivism in as far as it is designed to reveal pre-existing phenomena and relationships with the assumptions similar to positivism that the phenomena under investigation is relatively stable and objectively exist. He further argues that under soft-positivism, it does not end at only confirming existing relationships but goes on to surface other constructs which may not have been in the earlier thought out relationship in line with the interpretivism paradigm. This is meant to examine constructs that are not easily separable from their contexts nor limited to pre-identified constructs.
This is the philosophical background to this study combining elements of positivism and interpretivism. In the study, temporal bracketing will be used as a means of control at each stage of the life cycle. Temporal bracketing focuses on the exercise of control within phases and changes across phases (Langley 1999: 703). Temporal bracketing for each stage will mean leaning towards positivism as the test for each stage in the life cycle is based on existing theory. However, the financing component within each stage will require leaning towards interpretivism due to the fact that there will be certain continuities and discontinuities as we cross each stage of the life cycle.

3.3 RESEARCH APPROACH, STRATEGY AND/OR DESIGN

Research approach is defined by Creswell (2012:162) as a strategy for increasing the validity of an investigation. The approach can be looked at as procedures followed to carry out a study right from the broad assumptions, through the methods, data collection, analysis, interpretation and dissemination. Still there are disagreements on the use of the term research approach by some authors insisting on two approaches; inductive and deductive (Gray 2014: 34; Saunders et al. 2009:489) and others looking at approaches as the categorisation of qualitative, quantitative and mixed methods research (Creswell 2012:86). Basically, the approaches that are available are deductive and inductive. Under deductive, the study starts with a theory and proceeds to test that theory in the environment using hypotheses. On the other hand, inductive approach starts with observations and derives a theory from the results (Saunders et al. 2009:41).

In this study, existing theories for financing SMEs are put to test in order to confirm their applicability within Uganda’s environments. At the same time, the study links the individual organizations’ stages within the life cycle to the most appropriate form of financing. This implies that the study makes use of both deductive approach and inductive approach with the deductive approach being used to test the current state while the inductive is used to generate a model that can be of value to the different organizations.

In the undertaking of this study, mixed methods were employed. The use of mixed methods for the study was premised on the need to support deeper analysis of the data from the study starting with the quantitative data obtained from the survey questionnaires together with the analysis of the financial statements with a view of facilitating the categorisation of the SMEs along the different stages of the organizational life cycle. This was then followed up with interviews for selected firms, where the qualitative data was
obtained to supplement and triangulate the data obtained from both the survey questionnaires and financial statements.

For purposes of clarity; mixed methods refers to those methods of study that combine aspects of both quantitative and qualitative methods. According to Creswell (2012:19), quantitative research methods dwell on collection of data that is quantified or measured in quantities or amount (Kothari 2004:3) while qualitative research methods focus on that data collection which is in a non-quantified form or phenomena involving quality, opinion, views or Kind (Kothari 2004:3). The quantitative methods rhyme well with the deductive approach to research while the qualitative methods rhyme well with the inductive approach to research and it is for this reason that some scholars insist that the approaches are qualitative, quantitative and mixed methods in research. The use of mixed methods falls in between the quantitative and qualitative methods of data collection.

According to Saunders et al. (2009: 108) there are many research strategies that one can adopt under mixed methods and these may include: experiment, survey, case study, action research, grounded theory, ethnography, and archival research. The research strategy is equated to research design as indicated by Gray (2014:128). A brief description of the above identified research strategies according to Saunders et al. (2009:142) follows below.

Experimental research strategy or designs are procedures in quantitative research in which the investigator determines whether an activity makes a difference in the results for participants by using two groups with different activities or with one group having an intervention different from the other (Creswell 2012: 21). The major focus of knowledge generation in an experiment is the effect of the change in the environment on the subject being researched on and hence the importance of holding all other factors constant apart from the defined experimental variable. Experiments have been presented as one of the best strategies for investigation of causality due to the level of control that is involved.

Survey research strategy is another common quantitative leaning design used where one is interested in describing trends in a large population and the researcher administers a study tool to a small group aimed at identifying trends in attitudes, opinions, behaviour or characteristic of the large group (Creswell 2012:12). According to Isaac and Michael (1997:136), survey research is used to answer questions that have been raised, solve problems that have been posed or observed, assess needs and set goals, determine
whether or not specific objectives have been met, establish baselines against which future comparisons can be made, analyse trends across time, and generally, to describe what exists, in what amount, and in what context. Saunders (2009:145) argues that survey research strategy is popular as it allows collection of large amounts of data from a sizeable population in a highly economical way. The data can then be used to predict relationships among defined variables.

Case study research strategy or design is defined by Robson (2002:178) cited by Saunders et al. (2009:145) as ‘a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence’. Yin (1994:23) defines the case study research method “as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.” Gray (2014:266) posits that case study research design is strongly associated with qualitative research partly because case studies allow for generation of multiple perspectives through the data collection methods employed.

Action research designs are systematic procedures used to gather both quantitative and qualitative data aimed at addressing a defined knowledge gap (Creswell 2009:21). One of the major attributes of action research according to Saunders et al. (2009:147) is the active involvement of the researcher and the research subjects in the research process. They further argue that other than the active involvement of the two parties, action research involves addressing of a specific issue, it emphasises interactive processes and is aimed at certain implications after the study.

According to Neuman (2011:30), action research treats knowledge as a form of power by blending knew knowledge with the desire to achieve a specific purpose there by influencing action.

Grounded theory designs are systematic, qualitative procedures that researchers use to generate a general explanation grounded in the views of participants that explains a process, action, or interaction among people (Creswell 2012:21). Gray (2014:166) posits that grounded theory research design has been highly influential in qualitative research due to its inductive but systematic approach to the research and data analysis. Saunders et al. (2009:148) argue that grounded theory is a typical inductive approach design in
which data collection starts without the formation of an initial theoretical framework, and theory is developed from data generated by a series of observation.

Ethnography research strategy or designs are described by Creswell (2012:21) as qualitative procedures for describing, analysing, and interpreting a cultural group’s shared patterns of behaviour, beliefs, and language that develop over time. In ethnography, the researcher provides a detailed picture of the culture-sharing group, drawing on various sources of information. The ethnographer also describes the group within its setting, explores themes or issues that develop over time as the group interacts, and details a portrait of the group. Gray (2014:164) argues that ethnography involves immersion into the field of study by the researcher. Sounder (2009:149) posits that ethnography is rooted in inductive research with the purpose being to describe and explain the social world that the research subjects inhabit in the way in which they would describe and explain it.

Archival research strategy involves the use of administrative records and documents as the principal source of data (Saunders et al. 2009:150). According to Bryman (1989) cited in Saunders et al. (2009:150), even if the term archival tends to be associated with historical records in the past, the strategy makes use of recent documents that are in existence at the time of the study. Hakim (2000) cited by Saunders et al. (2009:150), argues that even if archival research design is closely associated with secondary data analysis, when it is used, the documents referred to cease being an example of the already existing literature and they become a key subject matter of the study based on their day to day effect on the variables on which knowledge is being gathered.

According to Saunders et al. (2009:150), an archival research strategy allows research questions which focus upon the past and changes over time to be answered, be they exploratory, descriptive or explanatory. The challenge is that the answers will be affected by the documents that are available and in most cases even when such documents exist, getting a perfect match to your questions may be farfetched. Hence, it is important that one confirms the existence of the relevant data before taking on this strategy of research.

For purposes of this study, a combination of survey in the form of a cross-sectional survey design and archival research in the form of documentary analysis are the two major research strategies used. This is aimed at achieving triangulation of the data findings in line with the mixed methods research with the ultimate objective of achieving a more complete understanding of the problem (Creswell 2012:22). This is also in line with Yin (2011) who posits that mixed methods research offers an option that actually tries to take
advantage of the similarities and differences in qualitative and quantitative methods. According to Tashakkori and Teddlie (2003), multiple methods are useful if they provide better opportunities for you to answer your research questions and where they allow you to better evaluate the extent to which your research findings can be trusted and inferences made from them.

### 3.3.1 Mixed methods research design

Mixed methods research design is the general term used to refer to where both quantitative and qualitative data collection techniques and analysis procedures are used during the research process (Saunders et al. 2009:152). Creswell (2012:535) defines mixed methods as an approach to inquiry involving collecting both quantitative and qualitative data, integrating the two forms of data, and using distinct designs that may involve philosophical assumptions and theoretical frameworks. Johnson and Onwuegbuzie (2004:17) define mixed methods as the class of research where the researcher mixes or combines quantitative and qualitative research techniques, methods, approaches, concepts or language into a single study or set of related studies. Other authors including Greene (2006:95) as well as Miller and Gatta (2006:595), have defined mixed methods research with varying degrees of divergence from the above definitions but almost all have some similar characteristics. These include the involvement of both qualitative and quantitative data at the collection stage, use of both quantitative and qualitative data analysis methods, merging of data from both qualitative and quantitative sources, a certain timing of the data collection either concurrently or in a sequential way among other characteristics.

According to Creswell and Plano (2011:22-30), mixed methods research design is a recent design that has gone through different stages of development from the formative period of 1950-80s, through the paradigm debate period of 1970-90s, the procedural development period of late 1980s to 2000 and the advocacy as a separate design following the 2000s. As a research design, mixed methods has gained popularity due to its advantages of combining the both quantitative and qualitative methods. The major drawback associated with it is the decision on the level of depth to employ given that both qualitative and quantitative methods are being used as well as on the deployment of the two methods. In its deployment, mixed research methods may adopt two ways; the first being where the data collection techniques are used at the same time often referred to as concurrently or parallel and the second being where one set of techniques are used
after the other set referred to as sequential. According to Johnson and Onwuegbuzie (2004:22), the pattern is also defined by the level of importance attached to one particular design and this can be summarised in the table referred to as figure 3.1: Mixed methods approach below.

**Figure 3.1: Mixed methods approach**

<table>
<thead>
<tr>
<th>Timing dimension</th>
<th>Concurrent</th>
<th>Sequential</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equal status</strong></td>
<td>QUAL + QUAN</td>
<td>QUAL → QUAN</td>
</tr>
<tr>
<td></td>
<td>QUAN → QUAL</td>
<td></td>
</tr>
<tr>
<td><strong>Dominant status</strong></td>
<td>QUAL + quan</td>
<td>QUAL → quan</td>
</tr>
<tr>
<td></td>
<td>QUAN + qual</td>
<td>QUAN → qual</td>
</tr>
</tbody>
</table>

Source: Adapted from Johnson and Onwuegbuzie (2004)

Where Upper case QUAL, QUAN mean either equal dominance or dominant method used,

- qual, quan mean the less dominant method
- + means that they are deployed at the same time and
- → means the method that follows is deployed after the preceding one.

Hence, the table shows that one can deploy mixed methods concurrently with either qualitative methods being more dominant than quantitative methods or the reverse. Similarly, the research can deploy the two concurrently and they are of equal weight in the study.

On the other hand, the research can deploy mixed methods sequentially (either qualitative or quantitative).

For purposes of this study, the two methods are used with equal weight sequentially meaning that the mix is equivalent to the top most quadrant on the right hand side from the above figure 3.1 (QUAN → QUAL). During the analysis, the two sets are analysed differently for purposes of triangulation starting with the quantitative side followed by the qualitative, giving rise to what Creswell (2012:541) refers to as the embedded design.
Figure 3.2: Sequence of qualitative data analysis

| Quantitative design | Qualitative design | Quantitative data collection and analysis | Qualitative data collection and analysis | Interpretation |

Source: Adapted from Creswell (2012)

For clarity, convergent mixed methods approach is where after the data collection, qualitative data is analysed independently of the quantitative data and the results are brought together for confirmation that the two sets lead to the same or similar conclusions.

3.4 STUDY POPULATION, TARGET POPULATION AND SAMPLE FOR THE STUDY

The study population for this study in line with Creswell (2012:142) comprised all registered SMEs based on the regulatory framework in Uganda. In terms of the target population or sampling frame, the study focused on the top 100 SMEs according to an annual research carried out by stakeholders in 2015. The top 100 SMEs hence form the sampling frame for this study out of which the final sample is selected. Within the final sample, the unit of analysis are the individual SMEs that make the final sample.

3.4.1 Sample size and sampling method and procedure

Purposive sampling to identify the top 100 SMEs in the country as the sampling frame is used mainly because of the information richness of such firms as well the ease to access such firms. From the 100 SMEs, simple random sampling is adopted to select a quota of the final sample of 74 firms. This is in line with Gray (2014:148) where a minimum sample size of 74 observations would be appropriate at 95% level of confidence for a target population of 100 units. This caters for the quantitative research design component within the mixed methods. For the qualitative methods, a sample of 20 SMEs is used to enlist data from selected respondents. The sample of 20 firms was used in line with Creswell (2014: 239) who argues for the minimum of 20 respondents under qualitative research as the number at which saturation is likely to occur. Saturation occurs when an additional respondent to the sample does not result in additional useful information to the study (Glaser & Strauss (1967: 61).
3.5 DATA COLLECTION METHODS AND INSTRUMENTS

The data for this study involved data necessary to determine the life cycle stages of each firm that makes the final sample to be part of the survey. A survey method was used in line with Creswell (2012:21) who defines it as a procedure in quantitative research in which you administer a survey or questionnaire to a small group of people referred to as a sample to identify trends in attitudes, opinions, behaviours or characteristics of a large group of the population. For emphasis, a cross-sectional survey design was the one deployed in this study. According to Creswell (2012:377) a cross-sectional survey is used where the researcher is targeting a particular defined point in time for the study to obtain views as at that particular point. According to Cohen, Manion and Marrison (2007:224), surveys gather data at a particular point in time with the intention of describing the nature of existing conditions, or identifying standards against which existing conditions can be compared, or determining the relationships that exist between specific events or variables. The authors argue that cross sectional study is more of the timing of the study or simply being one that produces a ‘snapshot’ of a population at a particular point in time such as the usual national census carried out periodically by different countries. This is the exact position taken by Neuman (2011:44). Neuman (2011: 49) argued that survey research uses a written questionnaire or formal interview to gather information on the backgrounds, behaviours, beliefs, or attitudes of a large number of people. In summary, survey research is a quantitative method where a researcher poses a defined set of predetermined questions to a group, or sample under study.

In order to support the categorisation of the SMEs along the organization cycle stages, in addition to the survey, data concerning the form of financing by each firm is obtained from the documentary review of the financial statements of these firms for both the year of study and the previous year through a method referred to as content analysis by some authors. According to Neuman (2011:371), content analysis is where one gathers and analyses the content of a test and the test can take the form of anything written, visual or spoken that serves as a medium for communication. Kothari (2004:110) states that content analysis which used to be purely quantitative in the 1940s involves analysing the contents of documentary materials such as books, magazines, newspapers and the contents of all other verbal materials which can either be spoken or printed. According to Saunders et al. (2009:259) documents for documentary review may include reports, minutes, and databases among others. Bailey (1994) argues that documentary review
refers to the analysis of documents that contain information about the phenomenon we wish to study.

For this study, the purpose of the financial statements analysis was three reasons; first, the analysis being to identify the composition of the financing sources of the firm followed by the categorisation of the SMEs along the organizational life cycle and lastly to give a clear picture of the performance of the organization as a measure of sustainability. In order to categorise the firms along the different stages of the life cycle, an analysis of the financial statements was undertaken to identify key indicators of revenue growth, change in profitability and change in non-current assets over the period under consideration.

As far as instruments are concerned, a survey instrument in the form of a questionnaire was used to obtain data from the final sample using non-categorical data in form of a Likert scale from 1 to 5. A questionnaire can be looked at as a survey research tool composed of defined questions, response to which would help the researcher gather data about defined variables. Hence, it is a set of questions for obtaining data and information from the research subjects. According to Cohen et al. (2011:317), the questionnaire is a widely used and useful instrument for collecting survey information, providing structured, often numerical data, being able to be administered without the presence of the researcher, and often being comparatively straightforward to analyse. In this study, the aim of the data gathered from the questionnaire is to facilitate classifying the individual firms along the organizational life cycle stages. The questionnaire is structured along the different characteristics of the organization as it moves through the life cycle stages. The survey questionnaire followed a structured format meant to identify the key characteristics at each stage of the organizational life cycle. A few open ended questions are included to open room for some qualitative data that is of value to the study but not fully captured within the structured instrument.

A documentary list is used for the study documents reviewed with a major focus on the financial statements. A documentary list refers to the research instrument in support of documentary review. The checklist contains the key documents that are critical to answering the research objectives and these included the Income statement and statement of financial position. The purpose of this instrument was to support the analysis of the capital structure as well as to facilitate the categorisation of the SMEs along the organizational life cycle stages. The documentary list used in this study was in the form of data to be obtained from the financial statements. Specifically, the data was in line with
assessment of the capital structure focusing on the sources of finance and the change in non-current assets obtained from the statement of financial positions of the firms. Additionally, data about the change on turnover and profitability ratios over the study period was also obtained from the income statements of the firms.

Lastly, an interview guide was used to facilitate the conduct of interviews by the researcher. Cohen et al. (2011:354) describes an interview guide as a list of topics and issues in an outline form whether or not in a defined sequence. The interview guide used for the study is what is referred to as semi-structured interview guide. According to Gray (2014), a semi structured interview guide is one which is not standardised and is commonly used in qualitative research. It lists all the issues and questions that are asked to cover these issues.

3.6 DATA ANALYSIS

Following the data collection, all data gathered was analysed in order to derive meaning and be able to respond to the research questions. According to Marshal and Rossman (1999:150), data analysis is the process of bringing order, structure and meaning to the mass of collected data. This simply means putting all the data collected from the field in all forms, into meaningful patterns. The quantitative data analysis starts with the testing of the data for reliability and once this test is passed, additional analysis is undertaken to allow the categorisation of the SMEs under the different stages of the life cycle in order to relate variables common among firms at each stage. The analysis undertaken is in two stages with the first analysis aimed at classifying firms along the organizational life cycle stages and summarising the attributes relevant to each stage. After the classification of the firms along the life cycle stages, Qualitative data was obtained and that led to the second part of the analysis focusing on the qualitative data.

Creswell (2012:12) indicates that quantitative data is analysed by use of mathematical procedures consisting of a breakdown of data into parts that help to answer the research question. The results are then interpreted in light of the predictions from the previous studies. It is upon this background that quantitative data was analysed through, summarizing of the responses and tabulating them to form frequency tables and graphs. The tables are used to establish patterns and trends that may not be readily visible in raw data to be identified and analysed further (Hussey & Hussey, 1997). The essence of this is to classify the individual SMEs along the organizational life cycle with a view of
establishing the appropriate financing model at each stage. The analysis makes use of Statistical Package for Social Sciences (SPSS) ultimately focusing on establishing correlations between the variables analysed.

According to Tuckman and Harper (2012:387), any qualitative study involves an inseparable relationship or bond between data collection and data analysis in building meaningful interpretation to the data. This means that the data collection moves concurrently with the data analysis. Qualitative data in the form of interview is first transcribed followed by categorising responses into themes that are used to create patterns and then analysed through thematic analysis. This data is mainly from the interviews and is first transcribed in a written format taking into consideration the verbal responses and the interview notes. It is upon the transcription that the data is organised into themes which are then coded in order to attach meaning to the results of the interview. The coded results are used to identify emerging relationships among the variables.

Documentary review for the organizations in form of financial statements is analysed in comparison with expected performance indicators in the form of correlations linking the sources of finance to growth and other measures of sustainability. After the compilation of the findings from the survey, documentary review and the interviews, further analysis is undertaken against the parameters defining the different stages of the organizational life cycle. This is aimed at complimenting and triangulating the results of the survey questionnaire in categorising the individual SMEs as well as defining the financing structure at the time of the financial reports being generated.

After putting the findings from the three methods together, SPSS is used to generate correlation analysis and regression analysis aimed at establishing the existence or non-existence and or strength of the relationship between the dimensions of financial sustainability stated as profitability, non-current assets value and turnover with capital structure or mix of debt and equity in the firms at each stage of the life cycle. Since there are multiple dimensions representing financial sustainability, a test to confirm or eliminate multicollinearity is also conducted (Kennedy 2008:285).

In order to generate to respond to the overall objective of the study, structured equation modelling (Hox and Bechger 1998:1) is used based on multi regression model of partial least squares method to come up with the model that captures the dimensions or
variables that should be used to define the capital structure relevant at each stage of the life cycle as well as the overall model relevant to SMEs in Uganda.

3.7 RELIABILITY AND VALIDITY

Reliability, is a measure more critical in quantitative research and can be looked at as the repeatability of the study allowing for auditability (Neuman 2011:212; Cohen *et al.* 2007:134). This means that if the same thing is repeated, results will recur under identical or very similar conditions. Kumar (1996:142) puts it as the extent to which a measurement scale is dependable, consistent, predictable and stable. This view is shared by Creswell (2012:159) who posits that reliability means that the scores from an instrument are stable and consistent. Instruments with high levels of consistency are said to be more liable than those with lower levels. For purposes of reliability, it is important that the research tool used produces the same or predictable results as it is repeatedly used. According to Neuman (2011:212), there are three forms of reliability and these are: measurement, stability and representative.

- Measurement reliability focuses on the dependability or consistency of the measure of a variable.
- Stability reliability measures reliability across time; a measure that yields consistent results at different time points assuming what is being measured does change.
- Representative reliability measures reliability across groups; a measure that yields consistent results for various social groups.

Creswell (2012:160) provides five ways in which one can test the reliability of an instrument and these include:

1) Test re-test reliability,
2) Alternative forms reliability,
3) Alternative form reliability and test retest reliability; and
4) Inter-relater reliability.

Test re-test reliability is a procedure which examines the extent to which scores from one sample are stable over time from one test administration to another. To determine this form of reliability, the researcher administers the test at two different times to the same participants at a sufficient time interval.
Alternative forms reliability involves using two instruments, both measuring the same variables and relating (or correlating) the scores for the same group of individuals to the two instruments. In practice, both instruments need to be similar, such as the same content, same level of difficulty, and same types of scales.

Alternative form reliability and test retest reliability combines the first two approaches into one. In the approach, the researcher administers the test twice and uses an alternative form of the test from the first administration to the second. This type of reliability has the advantages of both examining the stability of scores over time as well as having the equivalence of items from the potential universe of items.

Inter-relater reliability is a procedure used when making observations of behaviour. It involves observations made by two or more individuals of an individual's or several individuals' behaviour. The observers record their scores of the behaviour and then compare them to see if they are similar or different.

The scores from an instrument are reliable and accurate if an individual’s scores exhibit internal consistency across the items on the instrument. According to Sekaran and Bougie (2010:162), internal consistency is the degree of correlation between the various items of a measuring construct. The authors argue that Cronbach’s alpha coefficient can be used to measure the reliability of an instrument where Cronbach’s alpha coefficient (α) is simply an indication of how well items are correlated to one another. If the items are well formulated and as such strongly correlated with each other, their internal consistency is high and the Cronbach’s alpha coefficient will be close to one. On the other hand, if the items are poorly formulated and do not correlate strongly, the Cronbach's alpha coefficient will be close to zero. The closer Cronbach’s alpha coefficient is to 1, the higher the internal reliability. This measure is considered good if it is found to be 0.7 and above.

In this study, the measurement of internal reliability is based on Cronbach’s alpha in line with Sekaran and Bougie (2010:162).

Validity has been defined in different ways by different authors but they all point towards the same concept. According to Neuman (2011:212), validity suggests truthfulness. It refers to how well an idea “fits” with actual reality. Creswell (2012:159) posits that validity is the development of sound evidence to demonstrate that test interpretation matches to its intended use. While Kothari (2004:73) just like Saunders et al. (2009:157) argue that validity indicates the degree to which an instrument measures what it is supposed to
measure. Looked at differently, validity is the extent to which differences found with a measuring instrument reflect true differences among those being tested.

According to authors such as Neuman (2011:216), Kothari (2004:74) and Saunders et al. (2009:394), validity has four possible variations and these are: face, content, criteria and construct forms of validity. Face validity simply refers to the measure of whether an observer would agree that the research instrument indeed measures what it is meant to measure. Content validity is the measure as to whether the instrument adequately covers the definitions of what is being studied. Criteria validity is the test that relates to our ability to predict some outcome or estimate the existence of some current condition with a focus of predictability. While construct validity is the check that indeed the instrument measures what the researcher thinks it measures.

According to Cohen et al. (2011:133), threats to validity and reliability can never be erased completely; but the effects of these threats can be minimised through paying attention to validity and reliability throughout the study.

In order to ensure validity of the instruments used in the study, the instruments were pretested using identified experts in the field of finance specifically with a bias towards the variable. This led to the modification of some of the questions and/or statements in the instruments to ensure that they measured up to the validity measures. Additionally, to address the issue of content validity, the instruments were based on the existing literature as the foundation to the key concepts under the study.

3.8 ETHICAL CONSIDERATIONS

The major ethical consideration in research is the safety and protection of those involved in the study by ensuring the privacy and confidentiality of the participants (Lowrance, 2003:2). In this study, the research ensured that informed consent was received from the participants. Participants were informed prior to the research about what procedures were being followed and the relevance of these procedures. Participants were informed of the right to cease participation at any moment.

To ensure anonymity and hence enhance privacy, all information collected was not tagged to the provider but instead aggregated and treated as a batch in line with the recommendations of Sekaran and Bougie (2010:41). Strict adherence to the requirements of the university and national research requirements was another ethical consideration during the study.
3.9 CONCLUSION

This chapter provides a discussion of the research philosophy followed during this study, the research approaches and details of the research methodology. In the detailed methodology, the chapter reviews the research methods, research instruments, issues related to the study population all the way to the study sample as well as the detailed data collection and analysis approaches used. The chapter ends with a review of the instruments reliability and validity as well as the ethical considerations during the study. The purpose of the chapter was to ensure the study responds to the research questions by meeting the objectives of the study. The chapter hence shows how the data from the study necessary to classify the different SMEs along the organization cycle was obtained. This was then combined with the nature of financing obtained from the financial statements and the correlations linking the financing to performance to identify the sources of financing that support SMEs at each stage of the life cycle in order to meet the study objectives.

The next chapter presents the study findings following the implementation of the methodology described in this chapter. The essence of the chapter is to present the data, facts and information obtained from the study before they are analysed.
CHAPTER FOUR
PRESENTATION OF STUDY FINDINGS

4.1 INTRODUCTION

This chapter contains the presentation of the study findings both in a detailed format as well as summarised. It starts with the presentation of the fieldwork findings compared to the expected returns before presenting the responses received from the study participants. Broadly there are two sections; for quantitative data and qualitative data.

4.2 PRESENTATION OF FINDINGS FROM QUANTITATIVE DATA

A questionnaire survey was one of the methods used in the study and this generated mainly quantitative data whose findings are presented in this section. The presentation starts with responses from the participants, followed by a brief description of these responses. The data from the analysis of financial statements especially the long term sources of finance forms a substantial part of the data presented in this section just like the survey data.

The data collected specifically aimed at responding to the empirical objectives of the study as defined in chapter one and these were;

a) To establish how the mix of debt and equity at the organization’s start-up phase affects SME financial sustainability.

b) To determine if the existing financing mechanisms of SMEs at the organization’s growth stage are making a meaningful impact on their financial sustainability

c) To determine how the financing mechanisms of SMEs at an organization’s maturity stage are complementing those at the growth stage in ensuring financial sustainability.

d) To establish how SMEs can apply leverage financing mechanisms to rejuvenate themselves at the organization’s decline stage of their life cycle.

e) To determine the financing model that would ensure SME sustainability at each stage of the organizational life cycle.

The presentation of the data collected is hence cognisant of the above objectives.
4.2.1 Response rate

In order to meet the target responses as per section 1.6.3 and 3.3.1, a total of 100 survey instruments were distributed to all firms that were part of the sampling frame as per section 1.6.2 and 3.3.1. The aim of this was to obtain responses that would fit within the sample size defined in the above two sections in line with Punch (2003:43) whose suggestion is that a researcher should plan for potential poor response rates by increasing the sample size instead of trying to adjust the sampling after the study at the analysis stage. A total of 74 survey instruments were indeed received for the analysis stage in line with the target sample size which would indicate a perfect response rate given that the sample size as earlier defined was 74 respondents. However, upon reviewing of the completed questionnaires, two were found to be unsuitable for further processing since the responses appeared to have been from individuals who would ordinarily not have met the profile of the targeted respondents. Responses provided by these two instruments could not provide reliable data worth further analysis. This left a total of 72 reliable filled in survey instruments giving a response rate of 72% compared to those distributed but in comparison with the targeted sample size of 74, the response rate becomes 97%. According to Creswell (2012:407) a response rate above 50% is adequate for a survey while Amin (2005:288) argues that a response rate of at least 70% is good enough for a survey.

4.2.2 Financial sustainability in the context of this study

Financial sustainability has been defined by different scholars in different ways as discussed under section 2.2.3. In the context of this study, financial sustainability is reflected by the evolution of the SMEs from the initial stages to the decline stage and the ability to sustain their financial strength to fit among the top 100 SMEs in the country. Since firms in the study were able to out compete peers to make it to the top ranking within the country, they met the minimum conditions for sustainability in terms of their profitability, turnover, as well as asset value. In order to measure financial sustainability under the parameters of profitability, turnover, as well as asset value as discussed in section 2.2.3.2, financial statements for the years 2014 and 2015 from the firms under the study were obtained and from these particular figures indicating the above parameters were extracted as per the financial information collection tool in the appendix section. These figures were used as the basis for measuring the parameter of financial sustainability as elaborated under section 5.2 in the next chapter. The measurement was
based on the change in profitability, value of non-current assets and turnover over the two years under consideration. It is therefore important to note that the categorization that follows in the subsequent sections is reliant on the financial sustainability indicators.

4.2.3 Categorization of SMEs along the organizational life cycle

In order to respond to the research questions, firms that were included in the survey, were categorised into the different stages of the organizational life cycle. Attributes of the different firms in the survey in terms of the organizational structure were used to place each firm in the appropriate stage of the life cycle. In areas of contention, data returns on product development/innovation levels and sales or turnover growth of the firm were the deciding factors in line with the characteristics enumerated by authors including Kreng and Chiu (2011:7570-73), Tam, and Gray (2016:25) and Karniouchina, Carson, Short and Ketchen Jr. (2013:1011) among others. In order to ensure reliability in the categorization of the firms, responses to five statements in the survey instrument with a Cronbach’s alpha of 0.850 were used as indicated in Table 4.2. The five statements reflect the attributes of organizations at each stage of the life cycle according to Lester et al. (2003 cited in Lipi 2013:60). These include a centralised organizational structure in this firm; decisions are largely driven by the CEO/Owner(s) of the firm; the owner(s) actively manages the day to day running of the firm; the firm has many layers of management and the firm has an approved organization organogram.

Table 4.1: Cronbach’s Alpha coefficient for the organizational structure

<table>
<thead>
<tr>
<th>Reliability Statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cronbach's Alpha</td>
<td>.850</td>
</tr>
<tr>
<td>No. of Items</td>
<td>5</td>
</tr>
</tbody>
</table>

The table above shows Cronbach’s alpha coefficient for the factor; organizational structure using five items as indicators. The table is aimed at testing internal reliability. The Cronbach’s alpha coefficient above is in line with the recommendation of Sekaran and Bougie (2010:162) that a coefficient of 0.7 and above is considered good at portraying internal reliability.

The results of the categorization of the firms under the study are summarised in the table below
### Table 4.2: Categorisation of SMEs along the organizational life cycle stages

<table>
<thead>
<tr>
<th>Stage</th>
<th>Number of Firms</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>6</td>
<td>8%</td>
</tr>
<tr>
<td>Growth</td>
<td>8</td>
<td>12%</td>
</tr>
<tr>
<td>Maturity</td>
<td>29</td>
<td>40%</td>
</tr>
<tr>
<td>Decline</td>
<td>29</td>
<td>40%</td>
</tr>
<tr>
<td>Total</td>
<td>72</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Primary Data

The table above indicates the distribution of firms along the different stages of the organizational life cycle. From the table, the majority of the firms that formed part of the study portrayed characteristics of firms in the maturity and decline stage of the organizational life cycle. These were followed by those at the growth stage with the minority showing attributes of firms at the introduction stage. The above categorisation was based on the statements as presented above in the testing of the Cronbach’s alpha coefficient for the organizational structure. This in line with authors such as Hanks et al. (1993:16), Lester et al. (2003 cited in Lipi 2013:60), Kreng and Chiu (2011:7573) and Chenhall and Smith (1998) cited by Kreng and Chiu (2011:7570) who all provide indicators of each stage basing on the organizational structure centralisation or decentralisation, decision making or bureaucracy, levels within the organization structure and the nature of the organization structure itself as the key parameters for determining the stage of the firm within the organization life cycle.

#### 4.2.4 Debt and equity at the start-up phase and financial sustainability

Firms in the start-up portrayed characteristics such as informal organizational structure that could only be explained by the owner or top most senior executive but largely unknown by the members of staff. Where a structure seemed to emerge, it would be highly centralized with two to three levels at the most. These firms seemed to be largely preoccupied with building market for their products many of which were also under development or improvement. Table 4.3 shows the descriptive statistics related to organizational attributes for firms in the study at the start-up phase. These are in terms of organizational structure, influence of CEO in decision(s) making, the owner(s)’ level of participation in the management of the firm, the level of layers of management, existence of a formal organogram and availability of strategic business as well as operational plans within in the organization.
Table 4.3: Descriptive statistics for the organizational characteristics of firms at the start-up phase

<table>
<thead>
<tr>
<th>Number of Attributes</th>
<th>Number</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a centralised organizational structure</td>
<td>6</td>
<td>3.67</td>
<td>1.506</td>
</tr>
<tr>
<td>Decisions driven by CEO</td>
<td>6</td>
<td>3.67</td>
<td>1.751</td>
</tr>
<tr>
<td>Owners actively manage day to day operations</td>
<td>6</td>
<td>4.00</td>
<td>0.894</td>
</tr>
<tr>
<td>Firm has many layers of management</td>
<td>6</td>
<td>1.50</td>
<td>0.548</td>
</tr>
<tr>
<td>Firm has an approved organogram</td>
<td>6</td>
<td>1.67</td>
<td>1.211</td>
</tr>
<tr>
<td>Firm has an approved strategic plan</td>
<td>6</td>
<td>1.67</td>
<td>1.211</td>
</tr>
<tr>
<td>Firm has an approved business plan</td>
<td>6</td>
<td>2.00</td>
<td>1.095</td>
</tr>
<tr>
<td>Firm has an operational plan</td>
<td>6</td>
<td>2.67</td>
<td>1.506</td>
</tr>
</tbody>
</table>

Source: Primary data

The descriptive statistics above are an indication of the responses from the firms at the introduction or start-up stage of the life cycle based on a scale running from 1 to 5 with 1, the lowest level and 5, the highest level of agreement. This was defined as; 1: strongly disagree, 2: disagree, 3: not sure, 4: agree and 5: strongly agree.

Firms at the start-up phase portrayed a high level of organizational centralisation with a mean of 3.67 and a variation of 1.506, high dependence on the CEO for decision making with a mean of 3.67 and a variation of 1.751 as well as an active involvement of the owner(s) in the management of the firms at 4.00 and variation of 0.894.

Concerning strategic operations, such firms tended to lack an approved organogram or existence of one in an informal way at a mean of 1.67 and variation of 1.211 similar to the existence of a strategic plan. In terms of the existence of business and operational plans, these firms performed slightly better than the strategic plan with means 2.00 and 2.67 accompanied by variations of 1.095 and 1.506 respectively. The above attributes are in line with the findings of a number of authors including Kreng and Chiu (2011:7570-73), Tam, and Gray (2016: 25) and Karniouchina, Carson, Short and Ketchen Jr. (2013:1011).

On financing, firms at this stage of the life cycle returned the following descriptive statistics in Table 4.4 for the factors measuring reliance on Debt and Equity.

68
Table 4.4: Descriptive statistics for debt and equity finance by firms at the start-up Phase

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Valid</td>
<td>Missing</td>
<td>Mean</td>
</tr>
<tr>
<td>Firm relies more on internal financing for its operations</td>
<td>6</td>
<td>0</td>
<td>4.17</td>
</tr>
<tr>
<td>Firm relies more on internal financing for its growth</td>
<td>6</td>
<td>0</td>
<td>3.00</td>
</tr>
<tr>
<td>Firm's internal financing is sufficient for its expansion</td>
<td>6</td>
<td>0</td>
<td>1.67</td>
</tr>
<tr>
<td>The firm uses long term bank loans regularly as a source of financing</td>
<td>6</td>
<td>0</td>
<td>1.83</td>
</tr>
<tr>
<td>The firm uses short term bank loans regularly as a source of financing</td>
<td>6</td>
<td>0</td>
<td>3.33</td>
</tr>
<tr>
<td>The firm uses bank overdrafts regularly as a source of financing</td>
<td>6</td>
<td>0</td>
<td>3.33</td>
</tr>
<tr>
<td>The firm uses lease financing regularly as a source of financing</td>
<td>6</td>
<td>0</td>
<td>1.67</td>
</tr>
<tr>
<td>The firm uses mortgage financing regularly as a source of financing</td>
<td>6</td>
<td>0</td>
<td>1.83</td>
</tr>
<tr>
<td>The firm uses hire purchase regularly as a source of financing</td>
<td>6</td>
<td>0</td>
<td>1.50</td>
</tr>
<tr>
<td>The firm uses Government grants regularly as a source of financing</td>
<td>6</td>
<td>0</td>
<td>1.00</td>
</tr>
<tr>
<td>The firm uses trade credit regularly as a source of financing</td>
<td>6</td>
<td>0</td>
<td>3.00</td>
</tr>
</tbody>
</table>

Source: Primary Data

The descriptive statistics above are an indication of the responses from the firms at the introduction or start-up stage of the life cycle based on a scale running from 1 to 5 with 1, the lowest level and 5, the highest level of agreement. This was defined as; 1: strongly disagree, 2: disagree, 3: not sure, 4: agree and 5: strongly agree.

Clearly, the firms at the start-up stage tend to rely heavily on internal funds for their operations with a score of 4.17 and a variation of only 0.753 while reliance on internal funds somehow reduced when it gets to growth or strategic related expenditure at a score of 3.00 and a variation of 0.894. These firms indicated that the internal funds at their disposal are inadequate to cover their expansion as indicated by the disagreement to the statement that the internal funds are sufficient with a score of 1.67 and a low variation of 0.516 only.

In the financing of their operations, these firms at the start-up phase also make use of short-term loans, bank over drafts and trade credit with scores of 3.33, 3.33 and 3.0 respectively. The short-term loans and trade credit however have a higher variation that is greater than 1 compared to the lower variation associated with bank overdrafts of 0.816.
Concerning long term external funding, the firms’ responses show a very low reliance on such funding with long term bank loans and mortgage financing taking the highest score but at a paltry return of 1.83 with variation of 0.753 for loans and a similar return for mortgage finance but with a slightly higher variation of 0.983. The above two long term sources of finance are followed by lease financing and hire purchase at a low disagreement of 1.67 for lease financing and 1.50 for hire purchase. These also had variations that are close to each other at 0.816 and 0.837 respectively.

The use of Government grants with a perfect disagreement return of 1.00 and no variation (Variation of 0.000) among the firms is a clear indication of the total lack of Government support in the form of financing to firms at this stage of the life cycle. Beyond the factors that were meant to gauge financing at the start-up phase, many respondents introduced another form of financing referred to as friends and family. This form of financing is elaborated on in the qualitative analysis section where follow up questions were designed specifically for this form which had not been included in the survey instrument for quantitative data.

The summary of descriptive statistics regarding financing at the start up stage of the organizational life cycle shows a very low or almost negligible use of external funding sources by firms. At this stage it is for capital use purposes with a low level of financing in support of operations specifically in the form of bank overdrafts, short term bank loans and to some extent the use of trade credit to support short term financing needs. The main financing source for such firms still remain as the internal sources with a financing source referred to as friends and family supporting the common and known internal funding sources.

In terms of challenges faced by firms at the start up level in the process of accessing financing, high interest rates appeared as the most dominant challenge followed by long bank processes as well as the high taxes changed by tax authorities which impended on their ability to service loans from financial institutions. Figure 4.1 below shows a graphical representation of the distribution of the challenges at this stage as per the data obtained from the questionnaire survey instrument.
From the above figure, high interest rates charged by financial institutions and other fund providers at 57% was the major challenge faced by SMEs in the process of accessing finance. This was followed by the long loan processing time by financial institutions at 29% which was deemed unresponsive to the time constraints of the firms whenever they are in need of money. This was then followed by the high taxes charged by the tax authorities on the returns of the firms at 14%.

4.2.5 Debt and equity at the growth phase and financial sustainability

Firms at the growth stage of the organizational life cycle portrayed characteristics such as; formalised organizational structure, clear indication of professionalization of the manpower and growing level of turnover. These firms tend to have the highest demand for financing with turnover on the increase and other demands coming in such as expansion of asset base to meet the production or service delivery demands. These firms showed strong indicators of centralisation but with a limited degree of decentralisation of the operational activities.

The descriptive statistics regarding firms at the growth stage in terms of their characteristics are indicated in table 4.5 below.
Table 4.5: Descriptive statistics for the organizational characteristics of firms at the growth phase

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a centralised organizational structure</td>
<td>8</td>
<td>0</td>
<td>3.63</td>
<td>1.061</td>
</tr>
<tr>
<td>Decisions driven by CEO</td>
<td>8</td>
<td>0</td>
<td>4.50</td>
<td>0.535</td>
</tr>
<tr>
<td>Owners actively manage day to day operations</td>
<td>8</td>
<td>0</td>
<td>4.13</td>
<td>0.991</td>
</tr>
<tr>
<td>Firm has many layers of management</td>
<td>8</td>
<td>0</td>
<td>2.25</td>
<td>1.488</td>
</tr>
<tr>
<td>Firm has an approved organogram</td>
<td>8</td>
<td>0</td>
<td>2.50</td>
<td>1.604</td>
</tr>
<tr>
<td>Firm has an approved strategic plan</td>
<td>8</td>
<td>0</td>
<td>3.13</td>
<td>1.356</td>
</tr>
<tr>
<td>Firm has an approved business plan</td>
<td>8</td>
<td>0</td>
<td>3.38</td>
<td>1.061</td>
</tr>
<tr>
<td>Firm has an operational plan</td>
<td>8</td>
<td>0</td>
<td>3.50</td>
<td>1.069</td>
</tr>
</tbody>
</table>

Source: Primary Data

From the table above, firms at the growth stage have a relatively strong centralised structure indicated by a mean of 3.63 with a variation of 1.061. Firms have a very strong reliance on the CEO for decision making as indicated by a mean of 4.5 and a very low variation of 0.535. Additionally, the owner(s)’ active involvement in day-to-day operations returned a high average score of 4.13 with a low variation of 0.991.

In terms of layers of management, firms at this stage of the organizational life cycle have an improved average of 2.25 with a variation of 1.488. The same happens in terms of existence of an organogram where you notice that the average moves from below 2 for the start-up phase to 2.50 with a variation of 1.604. In terms of the strategic, business and operational plans, firms at the growth stage show a clear move towards having these in place with averages of 3.13, 3.38 and 3.50 accompanied with variations of 1.356, 1.061 and 1.069 respectively. From the descriptive statistics, it is easy to notice the trend towards formalisation of both the strategic and operational activities of these firms. As far as financing indicators are concerned, firms at the growth stage return the following descriptive statistics summarised in table 4.6.
Table 4.6: Descriptive statistics for debt and equity financing reliance by firms at the growth phase

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Valid</td>
<td>Missing</td>
<td></td>
</tr>
<tr>
<td>Firm relies more on internal financing for its operations</td>
<td>8</td>
<td>0</td>
<td>3.88</td>
</tr>
<tr>
<td>Firm relies more on internal financing for its growth</td>
<td>8</td>
<td>0</td>
<td>3.25</td>
</tr>
<tr>
<td>Firm's internal financing is sufficient for its expansion</td>
<td>8</td>
<td>0</td>
<td>2.25</td>
</tr>
<tr>
<td>The firm uses long term bank loans regularly as a source of financing</td>
<td>8</td>
<td>0</td>
<td>2.75</td>
</tr>
<tr>
<td>The firm uses short term bank loans regularly as a source of financing</td>
<td>8</td>
<td>0</td>
<td>3.25</td>
</tr>
<tr>
<td>The firm uses bank overdrafts regularly as a source of financing</td>
<td>8</td>
<td>0</td>
<td>3.50</td>
</tr>
<tr>
<td>The firm uses lease financing regularly as a source of financing</td>
<td>8</td>
<td>0</td>
<td>1.88</td>
</tr>
<tr>
<td>The firm uses mortgage financing regularly as a source of financing</td>
<td>8</td>
<td>0</td>
<td>2.25</td>
</tr>
<tr>
<td>The firm uses hire purchase regularly as a source of financing</td>
<td>8</td>
<td>0</td>
<td>1.88</td>
</tr>
<tr>
<td>The firm uses Government grants regularly as a source of financing</td>
<td>8</td>
<td>0</td>
<td>1.38</td>
</tr>
<tr>
<td>The firm uses trade credit regularly as a source of financing</td>
<td>8</td>
<td>0</td>
<td>3.88</td>
</tr>
</tbody>
</table>

Source: Primary data

From table 4.6 above, firms at the growth stage heavily rely on internal financing to meet their operational cost requirements as indicated by a factor return of 3.88 with a variation of 0.991. When it gets to financing of growth, the firms still rely more on the internal sources to meet their financing needs. This is indicated by a factor of 3.25 but with a slightly higher variation of 1.035 in comparison to the financing of operational costs. These firms still indicate the insufficiency of internal funds to fund expansion of the firm’s activities with a returned factor of 2.25 and a low variation of 0.463 showing a clear agreement by the different firms at this stage. For the firms at the growth stage, there is a clear demand for short term financing with trade credit taking the leading role at 3.88 with a low level of variation at 0.644. The use of bank overdraft is next with a factor of 3.50 and a variation of 1.195 closely followed by short term bank loans with a factor of 3.25 and variation of 1.282. Just like for firms at the introduction phase, mortgage financing is one the most popular long term source of funding for firms at the growth stage with a factor of 2.25 and a variation of 1.035. This is followed by lease financing and hire purchase with a factor of 1.88 but with lease financing posting a lower variation of 0.835 compared to 0.991 for hire purchase as a financing source. More so just like the firms at
the introduction stage, Government grants seem to play an insignificant role as a source of funding for firms at the growth stage with a returned factor of 1.38 with a low variation of 0.641. This is a slight improvement over a perfect 1.000 return by firms at the introduction stage.

A critical review of the descriptive statistics regarding financing at the growth stage of the organizational life cycle shows a very low but increasing (compared to the introduction phase) use of external funding sources by firms. At this stage it is for long term use with a high level of external financing in support of operations specifically in the form of trade credit, bank overdrafts and short term bank loans. The main financing source for long term investment and growth for such firms still remain as the internal sources but with an increasing importance of mortgage financing, lease financing as well as hire purchase. At this stage, there is entry of government grants as a minor source of financing to these firms. Just like at the growth stage, there is another financing source referred to as friends and family supporting the common and known internal funding sources.

In terms of challenges faced by firms in accessing finance at this stage, high interest rates came out prominently, followed by long loan processing time, the high cost of operation by the firms, internal inefficiency of the firms and other factors were mentioned as key challenges. The occurrence of these factors is indicated in a graphical presentation below.
Figure 4.2: Major challenges to access of finance by SMEs at the growth stage

<table>
<thead>
<tr>
<th>Challenges in accessing finance at growth stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Interest rates</td>
</tr>
<tr>
<td>Internal inefficiency</td>
</tr>
</tbody>
</table>

Source: Primary data

4.2.6 Debt and Equity at the Maturity Phase and Financial sustainability

Firms at the maturity stage of the organization life cycle reflected characteristics that include a clear organogram with more than three levels which were also operational. Many such firms had largely decentralised decision making and clear defined roles of key members of staff. Firms at this stage of the life cycle portrayed attributes such as increased innovation and diversification in terms of products and services offered to the market despite their products being largely dominant in the market. Table 4.7 below contains a summary of the descriptive statistics for characteristics of firms at the maturity stage.
### Table 4.7: Descriptive statistics for the organizational characteristics of firms at the maturity phase

<table>
<thead>
<tr>
<th>Number of Firms</th>
<th>Valid</th>
<th>Missing</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a centralised organizational structure</td>
<td>29</td>
<td>0</td>
<td>4.24</td>
<td>0.830</td>
</tr>
<tr>
<td>Decisions driven by CEO</td>
<td>29</td>
<td>0</td>
<td>4.07</td>
<td>0.923</td>
</tr>
<tr>
<td>Owners actively manage day to day operations</td>
<td>29</td>
<td>0</td>
<td>4.07</td>
<td>0.799</td>
</tr>
<tr>
<td>Firm has many layers of management</td>
<td>29</td>
<td>0</td>
<td>3.69</td>
<td>1.105</td>
</tr>
<tr>
<td>Firm has an approved organogram</td>
<td>29</td>
<td>0</td>
<td>3.62</td>
<td>0.942</td>
</tr>
<tr>
<td>Firm has an approved strategic plan</td>
<td>29</td>
<td>0</td>
<td>3.83</td>
<td>0.658</td>
</tr>
<tr>
<td>Firm has an approved business plan</td>
<td>29</td>
<td>0</td>
<td>4.03</td>
<td>0.325</td>
</tr>
<tr>
<td>Firm has an operational plan</td>
<td>29</td>
<td>0</td>
<td>4.21</td>
<td>0.620</td>
</tr>
</tbody>
</table>

Source: Primary data

From Table 4.7 above, firms at the maturity stage tend to have a centralised structure at an average of 4.24 and a variation of 0.830. Additionally, the decisions are largely driven by the CEO and the owners are still actively involved in the day to day management of the organization's activities as indicated by an average of 4.07 for both and a variation of 0.923 and 0.799 respectively. The firm’s layers of management seem to increase at this stage over the previous stage with an average of 3.69 and a variation of 1.105. Firms at this stage also tend to have an approved organogram and organization strategic plan as indicated by averages of 3.62 and 3.83 accompanied by variations of 0.942 and 0.658 respectively. Firms at this stage largely returned that they had business and operational returns again indicated by averages 4.03 and 4.21 with very low variations of 0.325 and 0.620 respectively.

As far as financing indicators are concerned, firms at the growth stage return the following descriptive statistics summarised in table 4.8.
Table 4.8: Descriptive statistics for debt and equity financing reliance by firms at the maturity phase

<table>
<thead>
<tr>
<th>Number of firms</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Firm relies more on internal financing for its operations</strong></td>
<td>3.66</td>
<td>0.936</td>
</tr>
<tr>
<td><strong>Firm relies more on internal financing for its growth</strong></td>
<td>3.48</td>
<td>0.871</td>
</tr>
<tr>
<td><strong>Firm's internal financing is sufficient for its expansion</strong></td>
<td>2.83</td>
<td>0.848</td>
</tr>
<tr>
<td><strong>The firm uses long term bank loans regularly as a source of financing</strong></td>
<td>2.79</td>
<td>1.177</td>
</tr>
<tr>
<td><strong>The firm uses short term bank loans regularly as a source of financing</strong></td>
<td>3.21</td>
<td>1.114</td>
</tr>
<tr>
<td><strong>The firm uses bank overdrafts regularly as a source of financing</strong></td>
<td>2.52</td>
<td>1.090</td>
</tr>
<tr>
<td><strong>The firm uses lease financing regularly as a source of financing</strong></td>
<td>2.48</td>
<td>1.056</td>
</tr>
<tr>
<td><strong>The firm uses mortgage financing regularly as a source of financing</strong></td>
<td>2.28</td>
<td>0.996</td>
</tr>
<tr>
<td><strong>The firm uses hire purchase regularly as a source of financing</strong></td>
<td>2.52</td>
<td>1.243</td>
</tr>
<tr>
<td><strong>The firm uses Government grants regularly as a source of financing</strong></td>
<td>1.72</td>
<td>0.882</td>
</tr>
<tr>
<td><strong>The firm uses trade credit regularly as a source of financing</strong></td>
<td>3.34</td>
<td>1.317</td>
</tr>
</tbody>
</table>

Source: Primary Data

Statistics from the table above show that at the maturity stage of the organization, firms still rely heavily on internal financing to meet their operational costs with a factor of 3.66 and a relatively low variation of 0.936. In addition to relying on internal financing for operational costs, firms at this stage of the organizational cycle also heavily use the same source for growth or strategic expenditure at a clear dominant factor of 3.48 and low variation of 0.871. In addition to this reliance, firms at the maturity stage are more confident that their internal sources of finance are sufficient to cater for their expansion drive at a factor of 2.83 and allow variation of 0.848. Of course this shows that even firms at maturity stage cannot be taken to have a dominant majority with a belief that internal funds are sufficient to cater for their expansion since the factor is less than 3.00.

In terms of short term sources of finance, firms at this stage of the organization cycle also rely mainly on trade credit as a source at a factor of 3.34 with a variation of 1.317. Trade credit as a source of meeting operating costs is followed by short term loans at a factor of 3.21 and variation of 1.114. This differs from the first two stages where short term bank...
loans are less attractive than bank overdraft. At maturity phase, bank overdraft is the least attractive short term source of finance with a factor of 2.52 and variation of 1.090.

At the maturity stage, the long term external sources of finance converge closely in terms of usage with long term bank loans marginally leading the pack at 2.79 with a variation of 1.177. This is then followed by hire purchase at a factor of 2.52 with a 1.243 variation before lease financing coming in the third place at a factor of 2.48 and variation of 1.056. Mortgage finance which appeared as the one of the most attractive sources for the earlier stages comes in at factor of 2.28 with a variation of 0.996 before the government grants showing a consistent improvement over the previous stages at a factor of 1.72 and a variation of 0.882.

Other than the continued heavy reliance of firms on internal sources, financing demands for firms at the maturity stage differ generally from the previous stages with a clear move away from the short term external sources to adoption of long term external sources of finance. It is at this stage that short term bank loans become more attractive than bank overdraft and mortgage financing becomes less attractive than the other forms of long term funding sources such as lease finance and hire purchase. Unlike for the first two stages, respondents from firms at this organizational life cycle did not take the informal friends and family source as an important source of finance. This could be due to the formal operating nature of these firms with no clear dominant individual to approach friends and family sources.

In terms of challenges to accessing finance, firms at the maturity stage also were highly constrained by the high interest rates charged by fund providers followed by the long loan processing time, internal inefficiency and a host of other factors with low occurrence including: stringent loan conditions, low capital base, high taxes and other factors. Figure 4.3 below shows a graphical representation of these factors.
Figure 4.3: Major challenges to access of finance by SMEs at the maturity stage

Source: Primary data

From the figure above, the major challenges facing SMEs at maturity stage while trying to access funding include; high interest rates, long loan processing time, internal inefficiency with a host of other factors such as; stringent loan conditions, low capital base and high taxes.

4.2.7 Debt and Equity at the Decline Phase and Financial sustainability

Firms at the decline stage possess attributes such as high level of diversification with a clear decentralised organization structure and clear bureaucratic systems. Firms here seem to be focused on building new products yet their products and services are dominant in the market. In the study, these firms had been part of the ranking of the SMEs for a reasonable number of years. Interestingly despite the bureaucracy in their systems, these organizations appeared efficient at tracing the necessary information such the financial statements and could easily identify individuals with the right information whenever needed. Table 4.9 below shows the descriptive statistics of firms at the decline phase.
Table 4.9: Descriptive statistics for the organizational characteristics of firms at the decline phase

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is a centralised organizational structure</td>
<td>29</td>
<td>2.59</td>
<td>0.867</td>
</tr>
<tr>
<td>Decisions Driven by CEO</td>
<td>29</td>
<td>3.03</td>
<td>1.149</td>
</tr>
<tr>
<td>Owners actively manage day to day operations</td>
<td>29</td>
<td>3.00</td>
<td>0.886</td>
</tr>
<tr>
<td>Firm has many layers of management</td>
<td>29</td>
<td>4.76</td>
<td>0.636</td>
</tr>
<tr>
<td>Firm has an approved organogram</td>
<td>29</td>
<td>4.66</td>
<td>0.721</td>
</tr>
<tr>
<td>Firm has an approved strategic plan</td>
<td>29</td>
<td>4.79</td>
<td>0.412</td>
</tr>
<tr>
<td>Firm has an approved business plan</td>
<td>29</td>
<td>4.90</td>
<td>0.409</td>
</tr>
<tr>
<td>Firm has an operational plan</td>
<td>29</td>
<td>4.93</td>
<td>0.258</td>
</tr>
<tr>
<td>Source: Primary data</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From table 4.9 above, firms at the decline stage have less of a centralised structure, with reduced influence of the CEO in decision making as well as less active involvement of the owners in the management of the day to day activities. This is indicated by averages 2.59, 3.03 and 3.00 accompanied by relatively low variations of 0.867, 1.149 and 0.886. The foregoing indication may be due to the size of such firms and existence of a clear organizational structure as indicated by the existence of the many layers of management with an average of 4.76 and a very low variation of 0.636 as well as a clear existence of an approved organogram with a mean of 4.66 and a variation of 0.721. Additionally, majority of these firms clearly have strategic, business and operational plans going by the high averages of 4.79, 4.90 and 4.93 with accompanying low variations of 0.412, 0.409 and 0.258 respectively. The attributes as indicated in the table above, manifest firms that are bureaucratic with many layers of management but with clear laid down organizational structures, policies and regulations.

In terms of financing preference, the descriptive statistics associated with these firms are also summarised in table 4.10.
Table 4.10: Descriptive statistics for debt and equity finance by firms at the decline phase

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm relies more on internal financing for its operations</td>
<td>29</td>
<td>0</td>
<td>4.07</td>
<td>0.998</td>
</tr>
<tr>
<td>Firm relies more on internal financing for its growth</td>
<td>29</td>
<td>0</td>
<td>4.31</td>
<td>0.541</td>
</tr>
<tr>
<td>Firm's internal financing is sufficient for its expansion</td>
<td>29</td>
<td>0</td>
<td>2.48</td>
<td>1.056</td>
</tr>
<tr>
<td>The firm uses long term bank loans regularly as a source of financing</td>
<td>29</td>
<td>0</td>
<td>2.76</td>
<td>1.527</td>
</tr>
<tr>
<td>The firm uses short term bank loans regularly as a source of financing</td>
<td>29</td>
<td>0</td>
<td>3.45</td>
<td>1.183</td>
</tr>
<tr>
<td>The firm uses bank overdrafts regularly as a source of financing</td>
<td>29</td>
<td>0</td>
<td>3.10</td>
<td>1.205</td>
</tr>
<tr>
<td>The firm uses lease financing regularly as a source of financing</td>
<td>29</td>
<td>0</td>
<td>2.00</td>
<td>1.134</td>
</tr>
<tr>
<td>The firm uses mortgage financing regularly as a source of financing</td>
<td>29</td>
<td>0</td>
<td>1.90</td>
<td>1.081</td>
</tr>
<tr>
<td>The firm uses hire purchase regularly as a source of financing</td>
<td>29</td>
<td>0</td>
<td>2.45</td>
<td>1.429</td>
</tr>
<tr>
<td>The firm uses Government grants regularly as a source of financing</td>
<td>29</td>
<td>0</td>
<td>1.28</td>
<td>0.591</td>
</tr>
<tr>
<td>The firm uses trade credit regularly as a source of financing</td>
<td>29</td>
<td>0</td>
<td>3.14</td>
<td>1.642</td>
</tr>
</tbody>
</table>

Source: Primary Data

From the table above, firms at the decline stage of the organizational life cycle keep within the trend of relying more on internal funding for their operational costs with a factor of 4.07 and variation of 0.998. Additionally, firms at this level have a dominant factor of 4.31 and a low variation of 0.541 in terms of relying on internal funding for financing growth. As far as short term sources of finance are concerned, these firms break the tradition and mainly use short term bank loans at 3.45 and variation of 1.183. The short term financing sources in the second place is the trade credit with a factor of 3.14 and a huge variation of 1.642 before the bank overdrafts come in at a factor of 3.10 but with a relatively low variation of 1.205. In terms of reliance on long term external sources, long term bank loans lead the pack with a factor of 2.45 and variation 1.527, followed by hire purchase finance at 2.45 and a variation of 1.429. Lease financing follows after hire purchase with
a factor of 2.00 and variation of 1.134 before mortgage finance coming in closely at 1.90 and a variation of 1.081. The trend of increasing government grants importance is finally broken at this stage with a backward movement in terms of importance, government grants come last at a factor of 1.28 and a variation of 0.591.

Descriptive statistics regarding financing at the decline stage of the organizational life cycle show a high dominance of internal sources of finance in the funding of both operational activities as well as strategic activities. Firms at this stage are more confident of their ability to meet both operational and strategic costs using internal sources of finance. Additionally, there is a reasonably high level of confidence that the internal sources of finance are sufficient to finance expansion even if this confidence is less than that portrayed by firms at the maturity stage.

In terms of short term sources of finance, trade credit still remains the major source but with a higher level of dispersion reflecting the high level differences in the usage of the source among firms at this stage. This is followed by the short term bank loan and then lastly bank overdrafts in the same order as the firms at the maturity stage of the life cycle.

As far as challenges to access of the different financing sources is concerned, firms at the decline stage also returned interest rates as the most dominant challenge, followed by low capital base, high cost of operation, high taxes imposed by tax authorities, stringent loan conditions, lack of viable partnerships and a number of other factors with low frequency as indicated in the figure below.
Figure 4.4: Major challenges to access of finance by SMEs at the decline stage

Challenges in accessing finance at decline stage

- High Interest rates 40%
- Other factors 20%
- Stringent Loan conditions
- Lack of Viable partnerships 7%
- High taxes 9%
- High cost of operation 9%
- Low capital base 11%

Source: Primary data

From the figure above, the list of other factors that took up 20% of the major challenges mentioned included; long loan processing time, internal management inefficiency, high levels of inflation, high levels of competition among firms and many other factors.

This section presented data about the firms that formed the study sample that was useful in categorising firms along the different stages of the life cycle. The data obtained from the survey instrument was the source of the categorisation of these firms along the organizational life cycle based on the defined characteristics of firms at each stage as discussed in section 2.4. Following the categorisation of firms along the organization life cycle stages, financial attributes of firms at each stage are presented to ease analysis of financial sustainability in the analysis of the findings chapter. The section also presents the popular sources of finance and common challenges in accessing finance cited by firms at each stage of the organizational life cycle.

The section that follows focuses on the presentation of the findings from the qualitative study. The presentation followed is the same as that in this section starting with categorisation of the firms in the study along the organizational life cycle stages.
4.3 PRESENTATION OF FINDINGS FROM QUALITATIVE DATA

In order to answer the questions that are presented in section 4.1 above, interviews were used to supplement the quantitative data collected earlier. This followed the embedded design of mixed methods where the justification was for the qualitative data to augment and support the quantitative data (Creswell 2012:544). This was done as explained in the following section.

4.3.1 Qualitative data collection process

In line with section 3.2.1, qualitative data was obtained through interviews to compliment the findings from the quantitative survey presented under section 4.1 above. In order to collect this data, 20 interviews were conducted with the following distribution.

Table 4.11: Categorisation of firms along the organizational life cycle for the interview

<table>
<thead>
<tr>
<th>Stage in the life cycle</th>
<th>Number of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction or start-up stage</td>
<td>3</td>
</tr>
<tr>
<td>Growth stage</td>
<td>3</td>
</tr>
<tr>
<td>Maturity stage</td>
<td>7</td>
</tr>
<tr>
<td>Decline stage</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
</tr>
</tbody>
</table>

Source: Primary Data

The table above shows the distribution of firms from which interviews were conducted along the organizational life cycle stages. From the table, each of the first two stages had 3 firms as part of the interview while each of the last three had 7 firms. The distribution was based on the categorisation of these firms according to the results of the quantitative data which indicated the different composition of the firms in each stage of the life cycle as indicated in Table 4.2 under section 4.13. The process of these interviews involved sending of interview appointments to the identified firms and the firms that responded were ranked based on the speed of response until the sample size was exhausted for each category as indicated in table 4.11 above.

The sections that follow from 4.2.2 to 4.2.5 concentrate on the findings that are linked to financing. It is however important to note that the interview covered more than what is
presented in these sections and the other information is more relevant under the analysis sections that follow in the next chapter.

4.3.2 Debt and equity at the start-up phase and financial sustainability

The structure and decision making systems of these firms confirmed the quantitative data findings of informality with low level or total non-existent structures at all. The firms interviewed in this stage did not all have a clear human resource unit of staff establishment and most employees were either relatives or partners in the setting up of the firm. This partially confirmed the lack of organizational policies, operational plans, business plan and approved strategic plan. Interestingly these firms did not have a high staff turnover with non-reporting losing of employees by way of leaving the organization in the recent past.

Regarding the sources of financing operational activities, these firms strongly relied on their internal sources of finance from their shareholder’s savings mainly. To a small extent, these firms rely on short term borrowing in the form of bank overdrafts and short term bank loans. Two of the firms indicated that the short term loans they access are usually obtained by their directors in their individual capacities rather than the organization’s name largely because of the inadequate collateral assets by these firms to pledge as security to the financial institutions. The major source of funding which all firms at this stage identified in support of their operational activities was trade credit or getting supplies on credit. In support of long term investments, firms at the start-up phase virtually rely on internal funds provided by the shareholders. These are the funds used to support growth in production or service delivery as well as to acquire necessary non-current assets. Additionally, one out of the three firms interviewed had a mortgage which was used to acquire the premises from which the firm was operating. Other than these, the firms interviewed did not have any other long term external formal sources of finance.

One source of finance that came out prominently is what these firms refer to as family and friends. Apparently firms at this stage arrange funding from close relatives as well as friends in the form of informal borrowing. This source was indicated as mainly for short term funds but it was also cited as a potential source for long term funds in support of non-current asset acquisition and business expansion. As a source of finance, friends and family is more pronounced whenever firms receive orders from their clients which may require amounts well above their working capital resources. In such cases, they usually approach trusted close relatives and/or friends with a request for financial support
with their purchase order as proof that such amounts would be paid back. The terms of such informal arrangements vary greatly even within the same firm with some relatives and friends asking for varying rates of interest on such amounts extended ranging all the way from zero to as much as 10% per month (meaning 120% per annum). All the firms formed part of the interview indicated this as a source of finance they have used before in their operations with each firm giving different reasons as justification for this being an important source to them. Two of the firms in the study indicated that they have experienced situations where it became a challenge paying back funds raised from friends and family, and arrangements were made to convert the amount into shareholding to the fund providers.

Additionally, some firms borrow informally from wealthy known individuals referred to as money lenders. This was found to be true for two of the three firms interviewed and the indication was that such borrowed funds usually served the purpose of a bridging finance in cases where firms obtain orders beyond their financial capacity. Unfortunately, funds borrowed from money lenders have very high interest rates at times as much as 16% per month which translates into 192% per annum. The major reason fronted for these firms accepting to borrow from money lenders at such high interest rates was the ease and speed with which they avail the funds to these firms without too much unnecessary paperwork.

“The only paper work required is proof of ownership of a reasonably valued real estate property with attached transfer forms that are post-dated to the date just after when we are expected pay back the money. This is the collateral in case we fail to pay back”……..Executive A

Findings from the interview regarding the composition of debt and equity for firms at the start-up phase largely collaborated with the findings from the survey with a clear bias towards use of internal sources of finance in the financing of both operational and strategic activities of these firms. One of the respondents sounded out a clear warning as follows:

“A firm that decides to use borrowed funds stands a probability of business failure at a level close to 85%. It is very risky to borrow for business in this country”……..Executive B
Reliance on debt was largely limited to mortgage financing as well as the informal sources of borrowing from friends and family members. For operational costs, these firms heavily make use of trade credit from their suppliers, use of overdraft facilities and to some extent arranging short term bank loans. One undesirable source of funding to these firm was the informal money lenders who clearly aim at taking as much as possible from these firms by charging exorbitant interest rates but the firms seem to be attracted to them due to the simplicity of their processes and the efficiency they exhibit at processing the needed funds.

4.3.3 Debt and equity at the growth phase and financial sustainability

Firms that were categorized as being at the growth stage of the organizational life cycle differed slightly from those at the start-up phase both in terms of their organizational structure and financial needs. All firms interviewed at this stage had experienced a situation at one time in the past where they had received a substantially high value order or client whose order they lacked the capacity to fulfil then. The experience drove them to set up systems in the organization to ensure a more orderly way of obtaining financing as well as operating as a firm. One of the firms interviewed had a bitter experience from such a scenario in that much as the order was delivered, the return was way below what was expected due to the high cost of delivering on the order largely due to the financing source used. The firm had established a strategic partnership with another firm to help in the delivery of the order after failing to obtain funds to finish the order. Two of the firms interviewed had a better experience because such an order defined their transit into a bigger and better organization. In all cases, the occurrence of this event turned out to be the big step that they wanted to become better firms.

In terms of financing the operating and strategic activities, firms at this stage rely mainly on internal sources of finance largely contributions from the shareholders but also from the savings by the firms on the sales and services delivered.

For growth and acquisition of non-current assets, one firm among those interviewed had obtained a long term loan while another one had arranged for mortgage financing; A finance lease arrangement for equipment and hire purchase for a motor vehicle. There was only one firm among those interviewed which had no formal source of long term funds in its capital structure. However, the same firm without any formal long term source of finance was running an off-the-balance sheet facility from the friends and family source. The facility was off-the-balance sheet mainly because it had been arranged privately by
one of the directors of the organization. Due to the nature of the arrangement, the interviewee in this case did not like classifying it as debt to the firm but instead debt to one of the directors of the firm even if the entire amount had been availed to the organization. Additionally, the firm was indirectly servicing the loan with the director only taking on the risk of failure to pay by the firm due the personal relationship with the person who had extended the loan to him. A close analysis of the nature of this arrangement led to the conclusion that this facility was a debt facility to the firm despite the unwillingness of the firm to classify and disclose it as long term debt in the financial statements.

In terms of short term sources of finance, firms at this stage all relied heavily on trade credit from their suppliers, bank overdraft facilities and short term loans. The short term sources of finance for firms at this stage were found to be recurring and continuous in nature in such a way that as one short term loan was nearing its maturity period, the firm would be arranging for a renewal or even possibly an increase in the facility amount. An executive with one of the firms put it this way...

“Obtaining short term funding from the financial institutions is highly dependent on our relationship with the suppliers. These firms (suppliers) are our most trusted source of reference to the financial institutions because they wish us good to remain their customers and at the same time they are aware that those loans we get from banks will mostly be used to pay for the goods they supply to us. So when banks call them for purposes of checking on our credit worthiness, they always give a good response. Of course that means that we also handle them with care, agree on credit settlements with them and endeavour to keep our part of the agreement.” ..........Executive C

Generally, firms at the growth stage also emphasised the use of internal sources of finance for funding both their operations and strategic activities. These firms show a higher appetite for using external funds but largely of a short term nature. Firms at this stage seem to be the most highly indebted among the firms across the organizational life cycle and are more open to using the different sources of finance available on the market. Just like the firms at the start-up phase, these firms also approach informal fund providers such as money lenders as well as using friends and family as a source of funding to meet their operating costs. It was also noticed that firms at this stage are highly innovative in the way they finance their activities including setting up partnerships with bigger firms all in the interest of meeting their customers’ demands.
4.3.4 Debt and equity at the maturity phase and financial sustainability

Firms at the maturity stage of the organizational life cycle portrayed lesser attraction to informal sources of finance than those at the previous two stages. One respondent working with a firm at this stage in responding to a question whether the firm prefers use of internal funds or borrowed funds, summarised it as…

“The best option is building a strong relationship with financial institutions and then the onus is on us to balance between debt and equity but giving higher preference to equity” …..Executive E

In terms of financing the day to day operations, an overwhelming majority of the interviewed respondents from the firms at this stage have a preference for internal sources of finance over the borrowed funds. Among the short term sources of borrowed funds, firms here have a preference for short term bank loans followed by bank overdrafts. Just like all the firms in the previous stages, firms at the maturity stage heavily make use of trade credit from their suppliers as a source of financing their short term operations.

In terms of financing strategic activities and growth, firms at the maturity stage still relied more on the internal sources of finance largely from the organization’s accumulated savings. One executive responded to the question as follows;

“In my business, preference is for organic growth driven by our internal savings rather than borrowing unless it is absolutely necessary. The lack of regulation and the associated uncertainty exposes you to higher business risk when you borrow for growth and expansion” ……..Executive E

For purposes of external long term borrowing, these firms exhibit preference for bank loans for purposes of growth and expansion. Majority of the firms in the interviews expressed a preference for use of hire purchase especially for acquisition of organizational motor vehicles. Use of lease financing is also almost as popular as hire purchase but mainly for acquisition of non-current assets other than motor vehicles.

For the first time during the interviews, Government grants as a financing source was mentioned by some organizations as one of the source of financing for mainly acquisition of assets as well as capacity building among staff members. The Government grants are mainly linked with firms that are in the agribusiness of value addition and the firms included in the interview opined that such a source of finance was instrumental in their growth and determining the direction of their business operations.
Generally, the importance of internal sources of finance for both operational and strategic activities use simply continue dominating the financing section of the balance sheet for the firms at the maturity stage of the life cycle even beyond its importance for the earlier two stages. The maturity stage is where most firms jump from the band wagon of using informal sources of borrowed funds to the formal sources including government grants for some forms majorly in agribusiness.

4.3.5 Debt and equity at the decline phase and financial sustainability

Firms at the decline stage of the organization life cycle included in the interviews displayed the most diverse formal sources of funding with many sources being mentioned as part of both their short term and long term funds.

As far as operational and strategic costs are concerned, firms at the decline stage maintain the trend among other stages by relying more on internal financing sources in comparison to the borrowed funds. To meet the operational costs using external sources, organizations at this stage mainly use short term bank loans followed by bank overdrafts. Trade credit plays an important role as a source of finance but views varied greatly among the firms in the study with an equal number being elated by trade credit and others being dismissive of the same. A reasonable number of firms at this stage seem to prefer immediate settlement of suppliers with a view that the rates charged for immediate payment are lower than those offered when buying on credit. One respondent summarised it as follows: -

“In this industry, it pays to buy on cash basis, suppliers include a creditor’s margin when you buy on credit. The margin may be little but since for us we buy in large quantities, it can set the firm back by a reasonable amount of shillings”……..Executive G

In terms of external long term funding sources, firms at this stage rely on hire purchase for acquisition of assets, mortgage financing for acquisition of premises as well as lease finance again for non-current assets. Other sources of finance that came up randomly among firms at the decline stage include venture capital mainly from venture capitalist both within and outside the country.

Clearly at the decline stage of the life cycle, firms tend to be formal in sourcing for funding for their activities and growth. Emphasis is more on saving as much as possible on the
cost of finance. It is at this stage that firms display a clear desire to expand and source for funding even beyond the in country sources.

4.4 CONCLUSION

This chapter presented the fieldwork findings starting with the results from the quantitative methods that largely emanated from the survey instruments in the form of a questionnaire and later on the qualitative methods using the interview guide and financial analysis guide. The chapter started with a review of the variable financial sustainability in the context of the study followed by the categorisation of the SMEs along the organizational life cycle before presenting the findings of the quantitative study along the categorisation explained earlier. The quantitative data findings are then followed by the qualitative data funding also along the categorisation of the SMEs explained earlier.

In general, all firms regardless of the stage along the organizational life cycle rely more on internal financing for financing both operational and strategic activities. At the start-up phase, there is a lot of reliance on internal sources of financing with the only external financing of value being from the short sources such as trade credit and short term bank loans. As firms progress along the organizational life cycle, the proportion of debt especially the long term debt also increases and reaches its peak at the maturity stage before declining slightly at the decline stage of the life cycle. The findings in this chapter are analysed in the next chapter.
CHAPTER FIVE
ANALYSIS OF RESEARCH FINDINGS

5.1 INTRODUCTION

This chapter presents an analysis of the findings from the empirical study. The responses from the quantitative survey are analysed together with the interview responses and supported by the documentary review. In this chapter, the literature obtained from the secondary sources is tested by the data from the empirical research to give meaning and understanding to the financing of SMEs within Uganda. The next section introduces the variables that are used during the analysis and how the variables are measured during the analysis. The purpose of introducing the measurement of the variables is for one to appreciate and attach meaning to the results of the analysis.

5.2 MEASUREMENT AND USE OF VARIABLES

For purposes of this analysis, the variables used are leverage and financial sustainability, where leverage is defined as the ratio of long term debt to the total long term debt and equity (Meero 2015:143). Financial sustainability on the other hand is measured by the dimensions; change in profitability, change in non-current assets value and change in turnover, in line with Lotti and Bonazzi (2015:19) Farah and Supartika (2016:132) and Rymanov (2010:16).

The ratio of leverage by way of measurement is represented by a scale measurement defined as; ‘1’ represents leverage running from 0 to 0.19, ‘2’ represents leverage from 0.2 to 0.39, ‘3’ represents leverage from 0.4 to 0.59, ‘4’ represents leverage from 0.6 to 0.79 and ‘5’ represents leverage from 0.8 to 0.99. This range or subdivision is based on the equal subdivision of 1 by 5 as represented in the Likert scale used.

For changes in the dimensions of financial sustainability, ‘1’ represents change less than -30%, ‘2’ represents a change from -30% to under -10%, ‘3’ represents a change, from -10% to under +10%, ‘4’ represents a change, from +10% to under +30% and ‘5’ represents a change over +30%. The decision to use these bands is based on the range between the minimum decline and maximum increments of -30% and +30% from the data obtained from the financial statements of the firms in the study as matched to the Likert scale ranging from 1 to 5. By using the above range, all decreases and increases observed among the firms in the study were accommodated.
It is hence important to note that the measurements for all the variables are in bands rather than absolute figures. The analysis in this chapter is based on leverage and the parameters of financial sustainability including profitability, non-current asset value and turnover as obtained from the financial statements in line with the measurement discussed above. The relevant variables for firms within each stage of the life cycle were matched to their respective leverages to derive the analysis as discussed below.

5.3 EQUITY-DEBT MIX AT THE ORGANIZATION’S START UP STAGE AND SME FINANCIAL SUSTAINABILITY

Given that the sources of long term finance available to a firm are debt and equity, firms must take a decision regarding this mix from inception. The decision on how these two sources are mixed up will largely depend on the stage at which the organization has reached within the organizational life cycle.

At the start up stage of the organizational life cycle, SMEs in Uganda largely depend on equity as the major source of finance according to the empirical study. According to the results from the empirical study, only a third (33%) of SMEs at this stage had some debt in their capital structure with the remaining two thirds (67%) strictly using equity as the only long term source of finance. This is depicted in figure 5.1 below.

Figure 5.1: Capital structure of firms at the start up stage
Source: Primary Data

Further analysis of the SMEs with debt in their capital structure indicates that firms with debt in their capital structure at this stage had a maximum of 46% debt and a minimum of 23% debt with the corresponding proportion being equity. Furthermore, for the firms that were classified as being at the start up stage, the average composition of debt in their capital structure using absolute figures was 13% with the remaining 87% being equity.

In relating debt and equity mix to financial sustainability at the start up stage above, debt is taken as the long terms borrowed funds including long term loans from financial institutions as well as friends and family sources, lease finance, mortgage finance and hire purchase. Financial sustainability is based on the dimensions of profitability, turnover and non-current asset base with the focus being on the changes in the above financial measures over two years under the study.

In order to respond to the objective about the capital structure (debt and equity mix) for firms at the start-up phase, multiple regression was established between the debt to total capital ratios and the dimensions of change in profitability, turnover and non-current asset base. However, before undertaking the multiple regression analysis, correlation analysis between the capital structure, measured as debt to total capital was undertaken for each of the dimensions of financial sustainability individually. This was meant to establish if the individual variables were correlated or not. This initial analysis is premised on the fact that if the variables are not correlated, then using simple regression and using multiple regression models would give the same results yet if they are correlated, the two would give different results (Maddala, 1992:143). Additionally, to test for the possible effect of multicollinearity, correlation analysis was undertaken for the dimensions of the independent variable.

The next three subsections focus on explaining the three key terms that form the backbone of the entire chapter, how they were used and the justification for each of these three; Correlation analysis, Regression analysis and Multicollinearity.

5.3.1 Correlation analysis

Correlation analysis is the statistical process of establishing a possible relationship between variables, the strength and direction of that relationship (Andre 2008:191). Hence, correlation analysis is a method of establishing whether or not when there is change in one variable, the second variable is also likely to change or not based on the
change in earlier variable. Using two variables in a distribution also called bivariate distribution, the relationship is measured by the correlation coefficient (r) which may range between the scores +1 and -1. The coefficient is an indicator of the strength of the potential relationship and the symbol +/- and indicator of the direction of that relationship. Kothari and Gaurav (2014:140), posit that where r is close to +1(-1), there is a strong positive (negative) relationship between the independent and dependant variables.

Correlation analysis under this chapter is used initially to establish if the three different dimensions of financial sustainability used i.e. profitability, asset base and turnover individually have a relationship with each other using bivariate correlation analysis method called Pearson momentum correlation. The purpose of this analysis is to minimise incidents of multicollinearity as explained in 5.3.3 below.

5.3.2 Regression analysis

Regression analysis is a statistical tool used to establish the extent of relationship between two or more variables leading to the ability to estimate the values of the unknown dependant variable from the values of the known independent variables (Andre, 2008:173; Gupta, 2010: 240, Gujarati, 2013:15; Kothari & Gaurav 2014:312). Regression analysis can take two major forms: simple and multiple regression. Simple regression is where one independent variable and one dependant or explanatory variable are considered for the analysis basing on the formula:

\[ y = \alpha + \beta X + \epsilon \]

Where, \( y \) = the dependent variable; \( \alpha \) = constant or \( y \)-intercept; \( \beta \) = the beta coefficient representing the slope of the line for the two variable; \( X \) = the independent variable and \( \epsilon \) = error term.

In line with simple regression analysis, multiple regression analysis introduces two or more independent variables in the analysis of the relationship with the dependant variable. Accordingly, the simple regression analysis formula is modified simply to include the new independent variables such as:

\[ y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \]

Where, \( y \) = the dependent variable; \( \alpha \) = constant or \( y \)-intercept; \( \beta \) = the beta coefficient representing the slope of the line for the relevant variables; \( X_1-X_4 \) = the independent variables one to four and \( \epsilon \) = error term.
For purposes of the analysis in this chapter, multiple regression analysis is undertaken for the dimensions of financial sustainability in situations where there is a relationship between the dimensions and the dependant variable. Where there is a specific dimension, whose relationship with the dependant variable is not significant, such a dimension is isolated before undertaking multiple regression analysis.

5.3.3 Multicollinearity

One major interpretation defect is caused by a situation where there are very high intercorrelations among the independent variables that one uses in multiple regression analysis (Kennedy 2008:285). Multicollinearity exists when two or more of the predictors in a regression model are moderately or highly correlated (Cameroon & Trivedi 2009:367). According to Hair et al. (2006:187), Multicollinearity is the extent to which a variable can be explained by other variables in the analysis. Increasing multicollinearity, complicates the interpretation of the change in the dependant variable (ibid) in regression analysis as it becomes more complicated to attribute the effect to any single independent variable owing to the interdependence among the independent variables.

According to Verbeek (2004:42), multicollinearity is used to describe the problem when an approximate linear relationship among the explanatory variables leads to unreliable regression estimates. An analysis of what would constitute high multicollinearity shows that there are disagreements among different authors, whereas Hair et al. (2006:187) argue that a correlation coefficient of 0.9 would not cause serious research conclusion challenges, authors such as Kennedy (2008:286) argue that any correlation coefficient above 0.7 may lead to misleading conclusions. Other than those authors, Dougherty (2006:15) argues that a high correlation coefficient does not necessarily lead to poor estimates if the number of observations and sample variance of the independent variables are large. Additionally, he (Ibid) argues that the presence of multicollinearity does not mean that the regression model is mis-specified, but the standard errors would be larger than they would have been. In this analysis, to minimise on the effect of multicollinearity, Pearson correlation is first generated to identify possible variables with high correlation (Woolridge 2006:102). Where two Independent variables return a correlation of 0.9 and above, these are investigated further for multicollinearity and where it is found to be perfect, one is eliminated (Verbeek 2004:42, Hair et al. 2006:189). In situations where the correlation coefficients are less than 0.9, the approach of do nothing presented by Gujarati (2014: 350) is adopted and the regression model interpreted as per the output.
results. It is important to note that even extreme levels of multicollinearity as long as it is not perfect (in other words not giving a correlation coefficient of 1) do not violate the assumptions of ordinary least squares method which is the basis of the entire analysis (Gujarati 2014: 350).

5.3.4 Analysis of equity-debt mix and SME financial sustainability at start up stage

This section presents the analysis of the debt to equity ratio and the dimension of financial sustainability starting with the correlation among the dimensions of independent variable followed by the regression analysis of these dimensions to the debt equity ratio using the two variations referred to earlier in 5.1. This analysis is for the firms in the start-up stage only.

(a) Correlation Analysis for the dimensions of financial sustainability.

Comparing change in profitability against change in non-current assets, Pearson returned the following correlation coefficient.

Table 5.1: Output table for correlation coefficient between profitability and non-current assets at the start up stage

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Change in Profitability</th>
<th>Change in Non-Current Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in profitability</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.605</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>6</td>
</tr>
<tr>
<td>Change in non-current assets</td>
<td>Pearson Correlation</td>
<td>.270</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.605</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Primary data

The correlation between the first two variables; change in profitability and change in non-current assets at the start up stage, returned a low coefficient of 0.270 moreover when it is not significant. This was below the cut off correlation coefficient of 0.90 (Hair et al. 2006:187). Hence, the two dimensions would not present a problem of multicollinearity under this stage.

Comparing change in profitability and change in turnover returned the following correlation coefficient as per table below.
Table 5.2: Output table for correlation coefficient between profitability and turnover

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Change in Profitability</th>
<th>Change in Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in profitability</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>6</td>
</tr>
<tr>
<td>Change in turnover</td>
<td>Pearson Correlation</td>
<td>.434</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.390</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Primary data

The correlation between the first two variables: change in profitability and change in turnover at the start up stage, returned a low coefficient of 0.434 which was also not statistically significant. This was below the cut off correlation coefficient of 0.90 (Hair et al. 2006:187). Hence, the two dimensions would not present a problem of multicollinearity under this stage.

Comparing the last set of variables change in turnover and change in non-current assets, returned the following correlation coefficient in the table below.

Table 5.3: Output table for correlation coefficient between turnover and non-current assets

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Change in Turnover</th>
<th>Change in Non-current assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in turnover</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>6</td>
</tr>
<tr>
<td>Change in non-current assets</td>
<td>Pearson Correlation</td>
<td>.174</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.742</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Primary data

The correlation between the first two variables; change in turnover and change in non-current assets at the start up stage, returned a low coefficient of 0.174 which was also not statistically significant. This was below the cut off correlation coefficient of 0.90 (Hair et al. 2006:187). Hence the two variables would not present a problem of multicollinearity under this stage.
Having established that there was no need to eliminate any of the dimensions at the start up stage, the analysis moved on to regression with all the dimensions forming part of the analysis. For emphasis, the dependant variable being leverage given by total debt to total debt and equity, and the independent variables being; change in turnover, change in profitability and change in non-current assets.

(b) Multiple Regression Analysis (using leverage as ratio of long term debt to sum of long term debt and equity)

The purpose of multiple regression analysis was to establish the extent of the relationship between debt and equity mix at the start up stage with the dimensions of financial sustainability. This was with the ultimate aim of responding to the first empirical objective defined in chapter one. The objective was phrased as to establish how the mix of debt and equity at the organization’s start-up phase affects SME financial sustainability.

Following the analysis in (a) which showed that all the three dimensions of financial sustainability; change in profitability, change in non-current assets and change in turnover did not have a high level of correlation to bring about issues of multicollinearity, the regression model used all the dimensions in analysing the multiple regression. Before running a regression model, the linearity of the model was tested using the F-test (ANOVA) which showed that the variables do not have a perfect correlation and hence the model is useful for further analysis (Kothari & Gaurav 2014:325). The relevant table outputs are indicated below and the appropriate analysis.

Table 5.4: Output table for the model summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of Estimate</th>
<th>R Square Change</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.995a</td>
<td>.991</td>
<td>.977</td>
<td>.079</td>
<td>.991</td>
<td>70.444</td>
<td>3</td>
<td>2</td>
<td>.014</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Change in Turnover over 2 years, Change in Profitability over 2 years, Change in Non-current assets over 2 years

Source: Primary data

From the table above the output indicates that there is a strong relationship between the capital structure (long term debt to total long term debt and equity) and the dimensions of financial sustainability (profitability, turnover and non-current assets) indicated by $r$ of 0.995. Additionally, a unit change in the capital structure is explained by 0.977 change in
the above dimensions. This means at the start up stage, up to 97.7% of the change in the capital structure is explained by the change in the three dimensions of financial sustainability.

**Table 5.5: Output table for F-test (ANOVA)**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1.321</td>
<td>3</td>
<td>.440</td>
<td>70.444</td>
<td>.014b</td>
</tr>
<tr>
<td>Residual</td>
<td>.013</td>
<td>2</td>
<td>.006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1.333</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Leverage given by Debt to Sum of debt and equity

b. Predictors: (Constant), Change in Turnover over 2 years, Change in Profitability over 2 years, Change in Non-current assets over 2 years

Source: Primary Data

The table above shows that the regression model is relevant for further analysis given that F test is significant with a p value of 0.014 that is less than 0.05. Hence leading to rejection of the null hypothesis that the fit of the intercept-only model and the above model are equal. With the rejection of the null hypothesis, it means that the model has explanatory power. This means that makes sense to interpret the multi regression model generated whose results are summarised in table 5.6 below.

**Table 5.6: Output table for regression analysis of leverage and financial sustainability at the start up stage**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-.388</td>
<td>.209</td>
<td>-6.639</td>
</tr>
<tr>
<td>Change in profitability</td>
<td>.200</td>
<td>.043</td>
<td>.316</td>
</tr>
<tr>
<td>Change in non-current assets</td>
<td>.313</td>
<td>.034</td>
<td>.635</td>
</tr>
<tr>
<td>Change in Turnover</td>
<td>.563</td>
<td>.066</td>
<td>.597</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Leverage given by debt to Sum of debt and equity

Source: Primary data

It is important to note that since all the three dimensions (in this model also independent variables) are statistically significant, the model can make use of all the variables for
prediction purposes. This is based on the p values of 0.044, 0.012 and 0.013 all of which are less than 0.05. From the table above, the regression Model has a constant of -0.388 which means that even with zero values of the three dimensions; profitability, non-current assets and turnover, the leverage will equal to -0.388. In reality, such a situation will never arise since a firm will at any one moment possess at least a given value of all the dimensions, but the model uses that as a value for prediction. The table further shows that a unit change in profitability will bring about a positive change equivalent to 0.2 in the leverage, all other variables held constant. In line with the above, a unit change in non-current assets will cause a positive 0.313 change in the leverage while a unit change in turnover will cause a positive 0.563 change in leverage, all other factors held constant.

From the above analysis, one can clearly observe that of the three independent variables, change in turnover has the highest predictive factor. Fitting the above regression model in the standard template (ignoring the error term which is unknown) earlier discussed of:

\[ y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \]

Then, y represents leverage, \( X_1 \) is change in profitability, \( X_2 \) is change in non-current assets and \( X_3 \) is change in turnover.

\[ y = -0.388 + 0.2 \text{ PROFITABILITY} + 0.313 \text{ NON-CURRENT ASSETS} + 0.563 \text{ TURNOVER} \]

The above model would then be used to predict the level of capital structure represented by leverage (debt to sum of debt and equity) at the start up stage. Clearly as the three dimensions of financial sustainability increase, the leverage will also increase.

Given the low levels of long term debt in the capital structure of firms at the start up stage, the same analysis was undertaken but using leverage as the ratio total debt (short and long term) to sum of total debt (short and long term) and equity. The analysis using these parameters is also indicated below.

(c) Multiple Regression Analysis (using leverage as ratio of total debt to sum of total debt and equity)

Given that only 33% of firms at the start up stage had some long term debt in their capital structure as indicated in figure 5.2 below, with the majority 67% operating without any long term debt in the capital structure, it was found appropriate to undertake a regression where debt is defined as the summation of long term and short term debt. This meant that leverage definition becomes the ratio of total debt (long term and short term) to sum of total debt and equity.
Figure 5.2: Sources of funding for firms at the start up stage

![Pie chart showing funding sources at the start up stage. 67% Equity Only, 33% Debt and Equity.]

Source: Primary data

The figure shows that when the definition of leverage is changed to include both short and long term sources for firms at the start-up phase, the proportion of firms with debt as a funding source increases from 33% to 67%. Using this definition, multiple regression analysis was undertaken for the dimensions of financial sustainability as discussed earlier. The output and analysis of the same are presented below.

The model generated by the regression basing on the above parameters was not statistically significant with a p value of 0.650 which was similar to the ANOVA p value. The implication of this output is that it would not make sense to fit a regression based on the above parameters. Therefore, the above conclusion meant when leverage is defined as the summation of both short term and long term debt, there would be no statistically significant relationship between the leverage and the financial sustainability of firms at the start up stage.

5.4 HOW FINANCING MECHANISMS AT THE GROWTH STAGE AFFECT FINANCIAL SUSTAINABILITY OF SMEs

Data from the empirical study indicated that leverage (ratio of long term debt to summation of long term debt and equity) at the growth stage was slightly greater than
that for start-up firms with half of the firms in the study having long term debt in their capital structure and half without long term debt in the capital structure as summarized in figure 5.3 below.

**Figure 5.3: Capital structure for firms at the growth stage**

Source: Primary Data

### 5.4.1 Analysis of equity-debt mix and SME financial sustainability at growth stage

This section presents the analysis of the debt to equity ratio at the growth stage and the dimension of financial sustainability starting with the correlation among the dimensions of independent variable which is used to identify potential multicollinearity, followed by the regression analysis of these dimensions to the debt equity ratio.

(a) Correlation analysis for the dimensions of financial sustainability

Comparing change in profitability against change in non-current assets, Pearson correlation returned the following correlation coefficient.
Table 5.7: Output table for correlation coefficient between profitability and non-current assets

<table>
<thead>
<tr>
<th>Change in profitability</th>
<th>Change in Profitability</th>
<th>Change in Non-current assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>.494</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.213</td>
</tr>
<tr>
<td>N</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in non-current assets</th>
<th>Pearson Correlation</th>
<th>.494</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig. (2-tailed)</td>
<td>.213</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Primary data

The correlation between the first two variables; change in profitability and change in non-current assets at growth stage, returned a moderate coefficient of 0.494 which was not statistically significant basing on the p value of 0.213. This was below the cut off correlation coefficient of 0.90 (Hair et al. 2006:187). Hence the two variables did not present a problem of multicollinearity under this stage.

Comparing change in profitability and change in turnover, returned the following correlation coefficient as per the table below:

Table 5.8: Output table for correlation coefficient between profitability and turnover

<table>
<thead>
<tr>
<th>Change in profitability</th>
<th>Change in Profitability</th>
<th>Change in Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>.712*</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.047</td>
</tr>
<tr>
<td>N</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in turnover</th>
<th>Pearson Correlation</th>
<th>.712*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig. (2-tailed)</td>
<td>.047</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).

Source: Primary data

The correlation between the two variables; change in profitability and change in turnover at growth stage, returned a relatively high coefficient of 0.712 which was statistically significant given the p value of 0.047. However, the coefficient was below the cut off correlation coefficient of 0.90 (Hair et al. 2006:187). Hence, the two variables did not present a problem of multicollinearity under this stage.
Comparing the last set of dimensions; change in turnover and change in non-current assets, returned the following correlation coefficient.

**Table 5.9: Output table for correlation coefficient between turnover and non-current assets**

<table>
<thead>
<tr>
<th></th>
<th>Change in Non-current assets</th>
<th>Change in Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in non-current assets</strong></td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.537</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>8</td>
</tr>
<tr>
<td><strong>Change in turnover</strong></td>
<td>Pearson Correlation</td>
<td>.537</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.170</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Primary data

The correlation between the two variables; change in non-current assets and change in turnover at growth stage, returned a moderate coefficient of 0.537 but not statistically significant. This was below the cut off correlation coefficient of 0.90 (Hair et al. 2006:187). Hence the two dimensions would not present a problem of multicollinearity under this stage.

Having established that there was no need to eliminate any of the dimensions at the growth stage, the analysis moved to regression with all the dimensions forming part of the analysis.

(b) Multiple Regression Analysis (using leverage as ratio of long term debt to sum of long term debt and equity)

For emphasis, the dependant variable being leverage given by long term debt to sum of long debt and equity and the independent variables being; change in turnover, change in profitability and change in non-current assets. This is further explained below.

The purpose of multiple regression analysis was to establish the extent of the relationship between debt and equity mix at the growth stage and financial sustainability with the ultimate aim of responding to the second empirical objective in chapter one. The objective was phrased as; to determine if the existing financing mechanisms of SMEs at the organization’s growth stage are making a meaningful impact on their financial sustainability.
Following the analysis in (b) above, which showed that all the three dimensions of financial sustainability; change in profitability, change in non-current assets and change in turnover did not have a high level of correlation to bring about issues of multicollinearity, the regression model used all the dimensions in analysing the multiple regression. Before running a regression model, the linearity of the model was tested using the F-test (ANOVA) which showed that the variables do not have a perfect correlation and hence the model is useful for further analysis (Kothari & Gaurav 2014:325). The relevant output tables are indicated below and the appropriate analysis.

**Table 5.10: Output table for the model summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.966*</td>
<td>.933</td>
<td>.883</td>
<td>.354</td>
<td>.933</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>18.667</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.008</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Change in Turnover over 2 years, Change in Non-current assets over 2 years, Change in Profitability over 2 years

Source: Primary data

From the table above the output indicates that there is a strong relationship between the capital structure (debt to sum of debt and equity) and the dimensions of financial sustainability (profitability, turnover and non-current assets) indicated by $r$ of 0.966. Additionally, a unit change in the capital structure is explained by 0.883 change in the above dimensions. This means at the growth stage, up to 88.3% of the change in the capital structure is explained by the change in the three dimensions of financial sustainability.
Table 5.11: Output table for F-test (ANOVA)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>7.000</td>
<td>3</td>
<td>2.333</td>
<td>18.667</td>
<td>.008b</td>
</tr>
<tr>
<td>Residual</td>
<td>.500</td>
<td>4</td>
<td>.125</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7.500</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Leverage given by long term debt and equity

b. Predictors: (Constant), Change in Turnover over 2 years, Change in Non-current assets over 2 years, Change in Profitability over 2 years

Source: Primary data

The table above shows that the regression model is relevant for further analysis given F test being significant with a p value of 0.008 that is less than 0.05. This led to rejection of the null hypothesis that the fit of the intercept-only model and the above model are equal which would in other words have meant that the model has no explanatory power. Given the above conclusion, it meant that it would make sense to interpret the multi regression model generated whose results are summarised in table 5.12 below.

Table 5.12: Output table for regression analysis of leverage and financial sustainability at the growth stage

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B (Std. Error)</td>
<td>Beta</td>
<td>t</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>- (1.000)</td>
<td>.609</td>
<td>-1.643</td>
</tr>
<tr>
<td>Change in profitability</td>
<td>.500 (.163)</td>
<td>.574</td>
<td>3.063</td>
</tr>
<tr>
<td>Change in non-current assets</td>
<td>.500 (.143)</td>
<td>.544</td>
<td>3.491</td>
</tr>
<tr>
<td>Change in turnover</td>
<td>.000 (.225)</td>
<td>.000</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Leverage given by long term debt and equity

Source: Primary data

From the table above, the p values for profitability (0.038) and non-current assets (0.025) are less than 0.05 indicating a statistically significant relationship with the dependant variable. However, turnover with a p value of 1.000 clearly shows that its relationship is not statistically significant and as such is dropped from the model.
From the table above the regression model has a constant of -1.000 meaning that even with zero values of the two dimensions; profitability and non-current assets, the leverage will equal to -1.000. The table further shows that a unit change in profitability will bring about a positive change equivalent to 0.5 in the leverage, all other variables held constant. Similarly, a unit change in non-current assets will cause a positive 0.5 change in the leverage, other factors held constant at the growth stage.

From the above analysis, one can clearly observe that the two independent variables used in the model have a similar effect on the leverage. Fitting the above regression model in the standard template (ignoring the error term which is unknown) earlier discussed of: 

\[ y = \alpha + \beta_1 X_1 + \beta_2 X_2 \]

Where, \( y \) represents leverage, \( X_1 \) the change in profitability, and \( X_2 \) the change in non-current assets.

\[ y = -1.000 + 0.5 \text{ PROFITABILITY} + 0.5 \text{ NON-CURRENT ASSETS} \]

The above model would then be used to predict the level of capital structure represented by leverage (debt to total debt and equity) at the growth stage. As the two dimensions of financial sustainability increase, leverage also increases.

5.5 Financing mechanisms at the maturity stage and financial sustainability

The number of firms from the study with debt in their capital structure increased relative to those in the previous stage as indicated in figure 5.4 below.
From the above, the proportion of firms at the maturity stage with debt in their capital structure was 66% and those with only equity in the capital structure was 34%. This is from the 50% proportions that were exhibited by firms at the growth stage of the life cycle.

5.5.1 Analysis of equity-debt mix and SME financial sustainability at maturity stage

This section presents the analysis of the debt to equity ratio at the maturity stage and financial sustainability starting with the correlation among the dimensions of the independent variable with a purpose of identifying potential multicollinearity, followed by the regression analysis of those dimensions to the debt equity ratio referred to as leverage.

(a) Correlation Analysis for the dimensions of financial sustainability

Before fitting a regression model, correlation analysis is computed for the dimensions of financial sustainability to confirm that there is none with a perfect or very high correlation (Hair et al. 2006:187), which would cause multicollinearity within the model. Starting with change in profitability against change in non-current assets, Pearson correlation returned the following correlation coefficient as per the output table.
Table 5.13: Output table for correlation coefficient between profitability and non-current assets

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Change in Profitability</th>
<th>Change in Non-current assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in profitability</td>
<td>Pearson Correlation</td>
<td>1.041</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.834</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>29</td>
</tr>
<tr>
<td>Change in non-current assets</td>
<td>Pearson Correlation</td>
<td>.041</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.834</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>29</td>
</tr>
</tbody>
</table>

Source: Primary data

The correlation between the first two variables; change in profitability and change in non-current assets at maturity stage, returned a low coefficient of 0.041 which was also not statistically significant. This was below the cut off correlation coefficient of 0.90 (Hair et al. 2006:187) set earlier for the multicollinearity possibility. The two variables did not present a problem of multicollinearity under this stage.

Comparing change in profitability and change in turnover, returned the following correlation coefficient.

Table 5.14: Output table for correlation coefficient between profitability and turnover

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Change in Profitability</th>
<th>Change in Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in profitability</td>
<td>Pearson Correlation</td>
<td>1.098</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.614</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>29</td>
</tr>
<tr>
<td>Change in turnover</td>
<td>Pearson Correlation</td>
<td>.098</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.614</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>29</td>
</tr>
</tbody>
</table>

Source: Primary data

The correlation between these variables; change in profitability and change in turnover at maturity stage, returned a low coefficient of 0.098 and statistically not significant. This was way below the cut off correlation coefficient of 0.90 (Hair et al. 2006:187). Meaning that the two variables did not present a problem of multicollinearity under this stage.
Comparing the last set of variables, change in turnover and change in non-current assets, returned the following correlation coefficient.

**Table 5.15: Output table for correlation coefficient between turnover and non-current assets**

<table>
<thead>
<tr>
<th></th>
<th>Change in Turnover</th>
<th>Change in Non-current assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in turnover</strong></td>
<td>Pearson Correlation 1</td>
<td>.166</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.389</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>29</td>
</tr>
<tr>
<td><strong>Change in non-current assets</strong></td>
<td>Pearson Correlation .166</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.389</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>29</td>
</tr>
</tbody>
</table>

Source: Primary data

The correlation between the two variables; change in turnover and change in non-current assets at maturity stage, returned a low coefficient of 0.166 but not statistically significant as per the p value of 0.389. This was below the cut off correlation coefficient of 0.90 (Hair et al. 2006:187). The two variables were hence found appropriate for further analysis as they did not present a problem of multicollinearity under this stage.

Having established that there was no need to eliminate any of the dimensions at the maturity stage, the analysis moved on to regression with all the dimensions forming part of the analysis.

(b) **Multiple Regression Analysis** (using leverage as ratio of long term debt to sum of long term debt and equity)

For emphasis, the dependant variable being leverage given by long term debt to sum of long term debt and equity and the independent variables being; change in turnover, change in profitability and change in non-current assets. This is further explained below.

The purpose of multiple regression analysis was to establish the extent of the relationship between debt and equity mix at the maturity stage and financial sustainability with the ultimate aim of responding to the third empirical objective defined in chapter one. The objective was phrased as; to determine how the financing mechanisms of SMEs at an organization’s maturity stage are complementing those at the growth stage in ensuring financial sustainability. Following the analysis in (b) above, which showed that all the three dimensions of financial sustainability; change in profitability, change in non-current assets
and change in turnover did not have a high level of correlation to bring about issues of multicollinearity, the regression model used all the dimensions in analysing the multiple regression. Before running a regression model, the linearity of the model was tested using the F-test (ANOVA) which showed that the variables do not have a perfect correlation and hence the model is useful for further analysis (Kothari & Gaurav 2014:325). The relevant table outputs are indicated below and the appropriate analysis.

**Table 5.16 Output table for the model summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>R Square Change</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.665a</td>
<td>.442</td>
<td>.375</td>
<td>.570</td>
<td>.442</td>
<td>6.597</td>
<td>3</td>
<td>25</td>
<td>.002</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Change in Turnover over 2 years, Change in Profitability over 2 years, Change in Non-current assets over 2 years

Source: Primary data

From the table above the output indicates that there is a moderate relationship between the capital structure (long term debt to sum of long term debt and equity) and financial sustainability (profitability, turnover and non-current assets) indicated by $r$ of 0.665. Additionally, a unit change in the capital structure is explained by 0.335 change in the above dimensions. This means at the maturity stage, only 37.5% of the change in the capital structure is explained by the change in the three dimensions of financial sustainability, the difference of 62.5% is explained by other factors. Looking at this conclusion, it becomes clear that as the firm progresses along the organization life cycle, the influence of profitability, turnover and non-current assets on capital structure also keeps on reducing.

**Table 5.17: Output table for F-test (ANOVA)**

<table>
<thead>
<tr>
<th>ANOVAa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Leverage given by long term debt and equity

b. Predictors: (Constant), Change in Turnover over 2 years, Change in Profitability over 2 years, Change in Non-current assets over 2 years

Source: Primary data
The table above shows that the regression model is relevant for further analysis given F test being significant with a p value of 0.002 that is less than 0.05. This led to rejection of the null hypothesis that the fit of the intercept-only model and the above model are equal which would in other words have meant that the model has no explanatory power. Given the above conclusion, it meant that it would make sense to interpret the multi regression model generated whose results are summarised in table 5.18 below.

Table 5.18: Output table for regression analysis of leverage and financial sustainability at the maturity stage

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficientsa</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unstandardized Coefficients</td>
<td>Standardized Coefficients</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.064</td>
</tr>
<tr>
<td></td>
<td>Change in profitability</td>
<td>.413</td>
</tr>
<tr>
<td></td>
<td>Change in non-current assets</td>
<td>.113</td>
</tr>
<tr>
<td></td>
<td>Change in turnover</td>
<td>-.407</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Leverage given by Debt to Equity

Source: Primary data

From the table above, the p values for profitability (0.007) and turnover (0.002) are less than 0.05 indicating a statistically significant relationship with the dependant variable. However non-current assets with a p value of 0.405 is not statistically significant and as such is dropped from the model.

The table above shows that the regression model has a constant of 1.064 meaning that even with zero values of the two dimensions of profitability and turnover, the leverage will equal to 1.064. The table further shows that a unit change in profitability will bring about a positive change equivalent to 0.413 in the leverage, all other variables held constant. Similarly, a unit change in turnover will cause a negative 0.407 change in the leverage, other factors held constant at the maturity stage.

From the above analysis, it can clearly be observed that the two independent variables used in the model have an inverse effect on the leverage. Fitting the above regression model in the standard template (Ignoring the error term which is unknown) earlier discussed of:  

\[ y = \alpha + \beta_1X_1 + \beta_2X_2 \]
where, $y$ represents leverage, $X_1$ is change in profitability, and $X_2$ is change in turnover.

$$y = 1.064 + 0.413 \text{ PROFITABILITY} - 0.407 \text{ TURNOVER}$$

The above model would then be used to predict the level of capital structure represented by leverage (debt to total debt and equity) at the maturity stage. It is important to note that unlike in the previous stages where all the dimensions showed a positive relationship with leverage, an increase in turnover will lead to a reduction in leverage.

5.6 SMES LEVERAGING FINANCING MECHANISMS AND FINANCIAL SUSTAINABILITY OF FIRMS AT THE DECLINE STAGE

From the empirical study, nearly all the firms had an element of debt in their capital structure at the decline stage with only 7% of the firms in the survey having only equity as a source of long term funds as per summary in figure 5.5 below.

**Figure 5.5: Capital structure for firms at the decline stage**

![Pie chart showing capital structure at the decline stage](image)

Source: Primary data

From the above figure, a total of 93% of the firms in the survey at decline stage had some sort of debt in their capital structure with a paltry 7% of firms using strictly equity sources as long term sources of finance. It is important to note that a follow up of two of the firms with only equity in capital structure by way of interviews led to the realisation that one of
the firms had just completed servicing a debt obligation in the recent past (specifically three years earlier). And the second one had previously suffered from a risk of foreclosure by a bank through loss of its collateral in the past and from the experience had found it difficult to obtain debt from existing financial institutions.

5.6.1 Analysis of equity-debt mix and SME financial sustainability at decline stage

This section presents the analysis of the debt to equity ratio at the decline stage and financial sustainability starting with the correlation among the dimensions of the independent variable with a purpose of identifying potential multicollinearity, followed by the regression analysis of those dimensions to the debt equity ratio referred to as leverage.

(a) Correlation Analysis for the dimensions of financial Sustainability

Before fitting a regression model, correlation analysis is computed for the dimensions of financial sustainability to confirm that there is none with a perfect or very high correlation (Hair et al. 2006:187), which would cause multicollinearity within the model. Starting with change in profitability against change in non-current assets, Pearson correlation returned the following correlation coefficient as per the output table.

Table 5.19: Output table for correlation coefficient between profitability and non-current assets

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Change in Profitability</th>
<th>Change in Non-current assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in profitability</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.085</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>29</td>
</tr>
<tr>
<td>Change in non-current assets</td>
<td>Pearson Correlation</td>
<td>-.325</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.085</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>29</td>
</tr>
</tbody>
</table>

Source: Primary data

The correlation between the first two variables; change in profitability and change in non-current assets at the decline stage, returned a low coefficient of -0.325 with a p value of 0.085 which was not statistically significant. The Coefficient was below the cut off correlation coefficient of 0.90 (Hair et al. 2006:187) set earlier for the multicollinearity possibility. The two variables did not hence present a problem of multicollinearity under this stage and qualified to be used as part of the regression analysis later on.
Comparing change in profitability and change in turnover, returned the following correlation coefficient as indicated in table 5.20.

**Table 5.20: Output table for correlation coefficient between profitability and turnover**

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Change in Profitability</th>
<th>Change in Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in profitability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>-.041</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.831</td>
</tr>
<tr>
<td>N</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td><strong>Change in turnover</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>-.041</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.831</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>29</td>
<td>29</td>
</tr>
</tbody>
</table>

Source: Primary data

The correlation between these variables; change in profitability and change in turnover at the decline stage returned a low coefficient of -0.041 with a p value of 0.831, which is statistically not significant. This was way below the cut off correlation coefficient of 0.90 (Hair *et al.* 2006:187). Meaning that the two variables also did not present a problem of multicollinearity under this stage and they would be appropriate for further analysis of regression.

Comparing the last set of variables, change in turnover and change in non-current assets, returned the following correlation coefficient.

**Table 5.21: Output table for correlation coefficient between turnover and non-current assets**

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Change in Turnover</th>
<th>Change in Non-current assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in turnover</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>-.128</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.508</td>
</tr>
<tr>
<td>N</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td><strong>Change in non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>-.128</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.508</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>29</td>
<td>29</td>
</tr>
</tbody>
</table>

Source: Primary data

The correlation between the two variables; change in turnover and change in non-current assets at the decline stage, returned a low coefficient of 0.128 and p value of 0.508 which
means the relationship is not statistically significant. This was below the cut off correlation coefficient of 0.90 (Hair *et al.* 2006:187). The two variables were hence found appropriate for further analysis as they did not present a problem of multicollinearity under this stage.

Having established that there was no need to eliminate any of the dimensions at the decline stage, the analysis moved on to regression with all the dimensions forming part of the analysis.

(b) Multiple Regression Analysis (using leverage as ratio of long term debt to sum of long term debt and equity)

The purpose of multiple regression analysis was to establish the extent of the relationship between debt and equity mix at the decline stage and financial sustainability with the ultimate aim of responding to the fourth empirical objective defined in chapter one. The objective was phrased as; to establish how SMEs can apply leverage financing mechanisms to rejuvenate themselves at the organization’s decline stage of their life cycle.

Following the analysis in (b) above, which showed that all the three dimensions of financial sustainability; change in profitability, change in non-current assets and change in turnover did not have a high level of correlation to bring about issues of multicollinearity. The regression model used all the dimensions in analysing the multiple regression. Before running a regression model, the linearity of the model was tested using the F-test (ANOVA) which showed that the variables do not have a perfect correlation and hence the model is useful for further analysis (Kothari & Gaurav 2014:325). The relevant table outputs are indicated below and the appropriate analysis.

**Table 5.22: Output table for the model summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>R Square Change</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.619a</td>
<td>.383</td>
<td>.309</td>
<td>.656</td>
<td></td>
<td>.383</td>
<td>5.164</td>
<td>3</td>
<td>25</td>
<td>.006</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Change in Turnover over 2 years, Change in Profitability over 2 years, Change in Non-current assets over 2 years

Source: Primary data

From the table above, the output indicates that there is a moderate relationship between the capital structure (debt to total debt and equity) and financial sustainability (profitability,
turnover and non-current assets) indicated by \( r \) of 0.619. A unit change in the capital structure is explained up to 0.309 by a change in the above dimensions. This means at the decline stage, only 30.9% of the change in the capital structure is explained by the change in the three dimensions of financial sustainability, the difference of 69.1% is explained by other factors. Close analysis of this conclusion, points to the fact that as the firm progresses along the organization life cycle, the influence of profitability, turnover and non-current assets on capital structure also keeps on reducing which is true for all levels of the organization life cycle.

**Table 5.23: Output table for F-test (ANOVA)**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>6.676</td>
<td>3</td>
<td>2.225</td>
<td>5.164</td>
<td>.006b</td>
</tr>
<tr>
<td>Residual</td>
<td>10.772</td>
<td>25</td>
<td>.431</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>17.448</td>
<td>28</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Leverage given by Debt to Equity  
b. Predictors: (Constant), Change in Turnover over 2 years, Change in Profitability over 2 years, Change in Non-current assets over 2 years

Source: Primary data

The table above shows that the regression model is relevant for further analysis given F test being significant with a \( p \) value of 0.006 that is less than 0.05. This led to rejection of the null hypothesis that the fit of the intercept-only model and the above model are equal which would in other words have meant that the model has no explanatory power. Given the above conclusion, it meant that it would make sense to interpret the multi regression model generated whose results are summarised in table 5.24 below.
Table 5.24: Output table for regression analysis of leverage and financial sustainability at the decline stage

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficientsa</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unstandardized Coefficients</td>
<td>Standardized Coefficients</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.193</td>
<td>.981</td>
</tr>
<tr>
<td>Change in profitability</td>
<td>.250</td>
<td>.156</td>
</tr>
<tr>
<td>Change in non-current assets</td>
<td>.233</td>
<td>.102</td>
</tr>
<tr>
<td>Change in turnover</td>
<td>-.327</td>
<td>.123</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Leverage given by Debt to Equity

From the table above, the p values for Non-current assets (0.031) and Turnover (0.013) are less than 0.05 indicating a statistically significant relationship with the dependant variable. However, profitability with a p value of 0.121 is not statistically significant and as such is dropped from the model. In the output table, the regression model has a constant of 1.193 meaning that even with zero values of the two dimensions of non-current assets and turnover, the leverage will equal to 1.193. The table further shows that a unit change in non-current assets will bring about a positive change equivalent to 0.233 in the leverage, all other variables held constant. Similarly, a unit change in turnover will cause a negative 0.327 change in the leverage, other factors held constant at the maturity stage.

From the above analysis, you can clearly observe that the two independent variables used in the model have opposing effects on the leverage. Fitting the above regression model in the standard template (Ignoring the error term which is unknown) earlier discussed of:

\[ y = \alpha + \beta_1 X_1 + \beta_2 X_2 \]

Where, y represents leverage, \( X_1 \) is change in Non-current assets, and \( X_2 \) is change in turnover.

\[ y = 1.193 + 0.233 \text{ NONCURRENT ASSETS} - 0.327 \text{ TURNOVER} \]

The above model would then be used to predict the level of capital structure represented by leverage (debt to total debt and equity) at the decline stage. It is important to note that just like at the maturity stage, an increase in turnover will lead to a reduction in leverage.
5.7 SUMMARY OF REGRESSION ANALYSIS OF LEVERAGE AND FINANCIAL SUSTAINABILITY FOR EACH STAGE IN THE LIFE CYCLE

Following the consideration of the regression analysis for each stage individually, a summary for all the stages is presented in the table below.

Table 5.25: Output table of regression analysis of leverage and financial sustainability across all stages

<table>
<thead>
<tr>
<th>Coefficients*: Start Up stage</th>
<th>Coefficients*: Growth Stage</th>
<th>Coefficients*: Maturity Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>Unstandardized Coefficients</td>
<td>Standardized Coefficients</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>-.388</td>
<td>.209</td>
</tr>
<tr>
<td>Change in profitability</td>
<td>.200</td>
<td>.043</td>
</tr>
<tr>
<td>Change in non-current assets</td>
<td>.313</td>
<td>.034</td>
</tr>
<tr>
<td>Change in turnover</td>
<td>.563</td>
<td>.066</td>
</tr>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>-1.000</td>
<td>.609</td>
</tr>
<tr>
<td>Change in profitability</td>
<td>.500</td>
<td>.163</td>
</tr>
<tr>
<td>Change in non-current assets</td>
<td>.500</td>
<td>.143</td>
</tr>
<tr>
<td>Change in turnover</td>
<td>.000</td>
<td>.225</td>
</tr>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.064</td>
<td>.744</td>
</tr>
<tr>
<td>Change in profitability</td>
<td>.413</td>
<td>.140</td>
</tr>
<tr>
<td>Change in non-current assets</td>
<td>.113</td>
<td>.133</td>
</tr>
<tr>
<td>Change in turnover</td>
<td>-.407</td>
<td>.114</td>
</tr>
</tbody>
</table>

120
### Coefficients<sup>a</sup>: Decline stage

<table>
<thead>
<tr>
<th>Model</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>T</th>
<th>Sig.</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Lower Bound</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.193</td>
<td>.981</td>
<td></td>
<td>1.215</td>
<td>.236</td>
<td>- .828</td>
</tr>
<tr>
<td>Change in profitability</td>
<td>.250</td>
<td>.156</td>
<td>.268</td>
<td>1.606</td>
<td>.121</td>
<td>-.071</td>
</tr>
<tr>
<td>Change in non-current assets</td>
<td>.233</td>
<td>.102</td>
<td>.384</td>
<td>2.282</td>
<td>.031</td>
<td>.023</td>
</tr>
<tr>
<td>Change in turnover</td>
<td>-.327</td>
<td>.123</td>
<td>-.424</td>
<td>-2.664</td>
<td>.013</td>
<td>-.580</td>
</tr>
</tbody>
</table>

<sup>a</sup> Dependent Variable: Leverage given by Debt to Equity

Source: Primary data

From the summary table above which shows the regression of leverage against financial sustainability as measured by three dimensions of change in profitability, change in non-current assets and change in turnover, the statistical significance of the relationship between these dimensions and the dependent variable of leverage changes at different stages of the life cycle.

At the Start up stage, all the dimensions have a statistically significant relationship with leverage as indicated by the p values of 0.022, 0.044 and 0.013 for change in profitability, change in non-current assets and change in turnover respectively in comparison to the 95% confidence level with a cut off of 0.05.

At the growth stage, it is only change in profitability and change in non-current assets with p values of 0.038 and 0.025 respectively that have a statistically significant relationship with leverage in change in turnover with a p value of 1.000 being the odd dimension out.

At the maturity stage, change in non-current assets with a p value of 0.405 is the odd one while change in profitability and change in turnover with p values of 0.07 and 0.02 respectively have a statically significant relationship with leverage.

At the last stage of decline, change in profitability with a p value of 0.121 does not have a statistically significant relationship with leverage while change in non-current assets and change in turnover with p values of 0.031 and 0.013 respectively have a significant relationship with leverage.

### 5.8 Conclusion

This chapter provides an analysis of the findings based on the number of statistical tools such as correlation and regression analysis. The analysis is presented as per the
categorisation of the firms along the organizational life cycle combining both the quantitative and qualitative research findings as planned in the methodology chapter section 3.2.1; where using mixed methods quantitative and qualitative data are presented separately but the analysis and interpretation are combined and done concurrently.

Correlation analysis was undertaken between leverage and financial sustainability indicated by three specific dimensions of profitability, asset base and turnover using Pearson momentum correlation method. The purpose of this correlation was to first establish if there is a relationship between the individual dimensions and level of this relationship would cause interpretation defect to the multiple regression analysis. This happens when there are very high inter correlations among the independent variables used in a regression analysis (Kennedy 2008:285). The correlation analysis of the dimensions returned relatively low coefficients below 0.90, which according to Verbeek (2004:42) and Hair et al. (2006:189) do not present concerns of multicollinearity as elaborated on under this chapter.

After eliminating possibilities of multicollinearity, multiple regression analysis was undertaken to establish how the dimensions of financial sustainability are related with leverage at each stage of the life cycle. Multiple regression was then used to establish a formula that can be used to predict the level of leverage at each stage of the organization life cycle. From the analysis of the results in this chapter a financing model can be developed. Developing the financing model is presented in the chapter that follows.
CHAPTER SIX
DEVELOPING A FINANCING MODEL FOR SMEs ALONG THE ORGANIZATIONAL LIFE CYCLE

6.1 INTRODUCTION
This chapter focuses on bringing together a proposed model that can be used by SMEs in Uganda to determine a capital structure that may support financial sustainability as they progress through the different stages of the organizational life cycle. The chapter is presented in response to the primary objective of the study. The primary objective is stated as to develop an appropriate financing model which will contribute towards the financial sustainability of SMEs along the organization’s life cycle. This chapter therefore combines the results of the empirical study to define a proposed model that originates from the fieldwork results over the two years that were covered by the study.

The model developed is based on the financing decision of financial management which deals with a mixture of debt and equity that an organization should adopt to ensure optimal returns. It is hoped that the model can bring about predictive power to SMEs so that they can have a smooth transition from one stage to another.

6.2 DEBT AND EQUITY MIX FOR SMES AT DIFFERENT STAGES OF THE ORGANIZATIONAL CYCLE IN UGANDA
The empirical results indicated that as SMEs progress through the organizational life cycle stages, leverage defined as debt to summation of debt and equity also keeps on increasing. The study findings showed that the number of firms with debt in their capital structure keeps increasing along the organizational life cycle with a clear positive trend as indicated in figure 6.1. It is however important to note that this increase is in terms of the number of firms with debt in their capital structure and not the proportion of debt in the capital structure among individual firms.
Figure 6.1: proportion of firms at different stages with debt in their capital structure

The figure above indicates that at the start up stage, only 33% of SMEs had debt in their capital structure and the remaining 67% operating with equity only as the long term source of finance. At the growth stage, the firms with debt in their capital structure increased to 50% of the surveyed firms. There is a further increase to 66% at maturity stage and later to 93% at the decline stage. On the other hand, firms operating with equity only as the source of long term finance reduced from 67% at the start up stage to 50% at the growth stage, reducing further to 34% at maturity before settling at paltry 7% at the decline stage. This trend was observed not to be in agreement with the findings of Pinkova and Kaminkova (2012:257) where the researchers concluded that the equity ratio in the capital structure gradually rises from the start-up phase until the maturity stage from which it starts to decrease among firms in a Czech automotive industry. It is important to note that the researcher (Ibid) used cash flows as a basis for classification of firms along the organization life cycle in the Czech automotive industry. The conclusion from the empirical study however is in line with the findings of Frielinghaus, Mostert, and Firer (2005:16), who indicated that the leverage based on debt to total assets ratio has an upward trend along the organizational life cycle.
6.3 FINANCING SOURCES FOR SMEs ALONG THE ORGANIZATIONAL LIFE CYCLE CONTINUUM

In order to have a clear picture of the financing sources for SMEs in Uganda along the organization life cycle continuum, figure 6.2 below is used to depict the sources regardless of whether it is part of the capital structure or not.

**Figure 6.2: Distribution of sources of finance at different stages of the life cycle**

Funding source and life cycle continuum

Source: Primary data

From figure 6.2, it can be seen that equity is the predominant source of finance for all firms at the different stages right from start up to decline stage. Trade credit, a short term source of finance, is another dominant source of finance common to all firms at the different stages of the life cycle with low levels at the start up stage mainly due to the low levels of creditworthiness of firms in infancy. These sources are then followed by long term debt used by a few of the firms at the start up stage but more predominant from the growth stage through maturity up to the decline stage. Other sources are common at
certain stages and phase out or do not exist in other stages. Examples include; friends and family as a source was identified to be common at the start up and growth stage of the life cycle possibly being more formalised at the later stages as venture capital. Lease financing and hire purchase take shape from the maturity stage and remain relevant at the decline stage. Bank overdraft and short term loans are common from the growth stage up to the decline stage with bank overdrafts being less common at the decline stage.

The above findings were found to be largely in agreement with the findings of Berger and Udell (1998:623), where the researchers presented a similar continuum but based on the size of the organization under their sample.

6.4 SUSTAINABLE FINANCING MODEL FOR SMEs ALONG THE ORGANIZATIONAL LIFE CYCLE IN UGANDA

Based on the findings from the empirical study and the review of literature, the following models are suggested and it is expected that if followed strictly would give a high degree of assurance that a firm would sustainably grow through the different stages of the life cycle due to the predictive powers discussed earlier in the analysis stage.

The models suggested are of two types, the formula based model that may require determination of key performance parameters before it can be used and a graphical based model that gives a broad guidance to a firm in deciding on the financing sources.

(a) Formula based model strictly for capital structure

In order to derive this model, a regression analysis of leverage (capital structure) and financial sustainability is undertaken first to confirm that a model combining these variables across the different stages of the life cycle would be useful in predicting the dependant variable. Having tested the correlation coefficients of the dimensions of financial sustainability across all the life cycle stages in Chapter six and found that they all had moderate to low correlation, they will therefore not present issues of multicollinearity even when combined. For purposes of emphasis, the correlations are again generated and coefficients and p values summarised in table 6.1 below.
Table 6.1: Summary of coefficients and p values for financial sustainability dimensions

<table>
<thead>
<tr>
<th>Correlation</th>
<th>Coefficient</th>
<th>N</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in profitability and change in Non-current assets</td>
<td>0.011</td>
<td>72</td>
<td>0.724</td>
</tr>
<tr>
<td>Change in profitability and change in Turnover</td>
<td>0.203</td>
<td>72</td>
<td>0.087</td>
</tr>
<tr>
<td>Change in non-current assets and change in turnover</td>
<td>0.113</td>
<td>72</td>
<td>0.346</td>
</tr>
</tbody>
</table>

Source: Primary data

The table above shows that the variables would not present multicollinearity in the model since they do not have a high or perfect correlation with each other.

Other than ruling out multicollinearity problems, there is also need to confirm that a model generated with the above variables would have predictive value. This is done by comparing the differences using the F test (ANOVA). Running the same generates the output table 6.2 below.

Table 6.2: Output table for F-test (ANOVA)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>13.843</td>
<td>3</td>
<td>4.614</td>
<td>13.389</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>23.435</td>
<td>68</td>
<td>.345</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>37.278</td>
<td>71</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Leverage given by long term debt and equity
b. Predictors: (Constant), Change in Turnover over 2 years, Change in Non-current assets over 2 years, Change in Profitability over 2 years

Source: Primary data

From the table above, a conclusion was drawn that the regression model is relevant for further analysis given F test being significant with a p value of 0.000 that is less than 0.05 hence leading to rejection of the null hypothesis that the fit of the intercept-only model and the above model are equal which would in other words have meant that the model has no explanatory power.

After confirming that the model has predictive value, confirmation of that level of prediction is assessed using the model output below in table 6.3.
Table 6.3: Output table for the model summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>R Square Change</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.609a</td>
<td>.371</td>
<td>.344</td>
<td>.587</td>
<td>.371</td>
<td>13.389</td>
<td>3</td>
<td>68</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Change in Turnover over 2 years, Change in Non-current assets over 2 years, Change in Profitability over 2 years

Source: Primary data

From the table above the output indicates that there is a moderate relationship between the capital structure (long term debt to sum of long term debt and equity) and financial sustainability (profitability, turnover and non-current assets) indicated by ‘r’ of 0.609. A unit change in the capital structure is explained up to 0.344 by a change in the above dimensions. This means overall financial sustainability has predictive power of up to 34.4% of the change in the capital structure implying that up to 34.4% of the change in capital structure is explained by the change in the three dimensions of financial sustainability, the difference of 65.6% is explained by other factors.

Given the above conclusion, it means that it makes sense to interpret the multi regression model generated due to the predictive nature indicated by $r^2$ of 0.344. This is in line with Baguley (2008:19) as well as Cohen cited in Gignac and Szodarai (2016:74) where $r^2$ value 0.25 corresponds to medium variance and above 0.4 to large variance in terms of prediction. It is also important to note that given the large number of possible variables that may affect capital structure, a variation of 34.4% explained by the independent variables in the study represent a reasonable percentage by all means. Additionally, it would have been useless as a model if the returned values of $r^2$ were at the extremes with a figure 1 which would have been a perfect score. This would mean that profitability, non-current assets and turnover account for all changes in the capital structure. The other extreme if it was at the lower end of 0, which would have meant that the same dimensions cannot be used to explain any change in the capital structure. The model results are summarised in table 6.4 below.
Table 6.4: Output table for regression analysis of leverage and financial sustainability across all stages.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Lower Bound</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>.869</td>
<td>.398</td>
<td>1.794</td>
<td>.077</td>
<td>.080</td>
</tr>
<tr>
<td>Change in Profitability</td>
<td>.340</td>
<td>.078</td>
<td>.428</td>
<td>4.360</td>
<td>.000</td>
</tr>
<tr>
<td>Change in Non-current assets</td>
<td>.216</td>
<td>.062</td>
<td>.334</td>
<td>3.453</td>
<td>.001</td>
</tr>
<tr>
<td>Change in Turnover</td>
<td>-.311</td>
<td>.073</td>
<td>-.422</td>
<td>-4.273</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Leverage given by long term debt and equity

Source: Primary data

Table 6.4 above indicates that all the three variables (in this model also independent variables) are statistically significant, and the model can make use of all the variables for prediction purposes. This is based on the p values of 0.000, 0.001 and 0.000 all of which are less than 0.05. From the table above, the regression model has a constant of 0.869 which means that even with zero values of the three dimensions; profitability, non-current assets and turnover, the leverage will equal to 0.869. The table further shows that a unit change in profitability will bring about a positive change equivalent to 0.340 in the leverage, all other variables held constant. In line with the above, a unit change in non-current assets will cause a positive 0.216 change in the leverage while a unit change in turnover will cause a negative 0.311 change in leverage, all other factors held constant.

From the above analysis, we observe that two of those variables have a positive relationship with leverage and the last one has a negative relationship with leverage. Fitting the above regression model in the standard template (ignoring the error term which is unknown) as earlier discussed:  

\[ y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \]

Then, \( y \) represents leverage, \( X_1 \) is change in profitability, \( X_2 \) is change in non-current assets and \( X_3 \) is change in turnover.

\[ y = 0.869 + 0.340 \text{ PROFITABILITY} + 0.216 \text{ NON-CURRENT ASSETS} - 0.311 \text{TURNOVER} \]

The above model would then be used to predict the level of capital structure represented by leverage (debt to total debt and equity) for the firms that were included in the study at any given stage of the cycle.
For purpose of clarity, it is important to note that in the previous chapter the regression analysis that was undertaken was based on firms in each stage as a standalone. This means that firms at the start up stage (6 firms) were the only ones used in the analysis for the start-up stage and the same was repeated for each stage. For the above model in this chapter, the regression analysis is based on the data from all the 72 firms in the study.

For clarity purposes, the model is fitted to the data and is presented below.

\[ y = 0.869 + 0.340 \text{ PROFITABILITY} + 0.216 \text{ NON-CURRENT ASSETS} - 0.311 \text{ TURNOVER} \]

Where, \( y \) represents leverage, \( X_1 \) is change in profitability, \( X_2 \) is change in non-current assets and \( X_3 \) is change in turnover.

The financing decision is one of the key decisions in financial management. This decision deals with how an organization structures its long term sources of finance also referred to as capital structure (Stanculescu, Ivanescu & Brezeanu 2011:569). This implies that the financing decision should help the firm come up with the appropriate mix of debt and equity in its capital structure which will bring about maximum wealth to the organization. The above model is meant to provide a way, which can be followed by SMEs in Uganda to generate the appropriate level of leverage or gearing measured by debt to sum of debt and equity for each firm individually using the independent variables as change in profitability, change in non-current assets and change in turnover.

Since the model is based on change from one period to another, it would imply that there would be continuous computation of these figures annually in line with the changes in the above variables. It is also important to note that the model does not provide for total debt but only the long term debt that is associated with the capital structure. More so, the model does not specifically identify the type of debt to be adopted but is limited to the composition of the long term sources of the organization otherwise called capital structure composition. It is for this reason that a graphical model that shows the common sources of both short and long term borrowed funds and equity is generated in the next section to provide a picture of the popularity of the different sources as per the findings of the empirical study.

Generally, the purpose of the above model is to predict the appropriate leverage that a firm should have, using the three predictors of change in profitability, change in non-
current assets and change in turnover. Once the three variables are ascertained by the organization, then the model can facilitate the decision on how to either increase or reduce leverage of that organization if the firm is to sustainably progress through the different stages of the organizational life cycle. In other words, it is the financing structure that is being predicated basing on the three variables.

Basing on the model’s predictive value, it would imply that with the general attributes of firms at different stages of the life cycle, firms at the introduction and growth stages where change in turnover is usually at its highest level are likely to have the lowest leverage in capital structure followed by firms at the maturity stage where change in turnover may be low. On the other hand, firms at decline stage where change in turnover is likely to be in negative values will most likely return the highest values of leverage in the capital structure due to the effect of the negative change in turnover being applied to its change predictor of -0.311. This conclusion is only true when we assume that the other variables (profitability and non-current asset base) are held constant. Given that all variables can differ by huge margins among different SMEs, the level of leverage would accordingly be expected to also vary basing on the values of the variables change in profitability, non-current assets and turnover for firms in the same stage of the life cycle.

(b) Graphical model covering all sources of finance available to SMEs
From the figure 6.3 above, equity defined as share capital and retained earnings, is the only source of financing cutting across all the stages of the organizational life cycle for SMEs in Uganda. This means that it is a constant for all firms regardless of the level of the organizational life cycle. Trade credit, which is a short term source of finance is another popular source for SMEs at all stages of the organizational life cycle even if it may not be in use for some of the SMEs at the start up stage, largely because of the lack of credit worthiness in the organizational infancy.

According to Berger and Udell (2006: 2953), trade credit was the leading source of finance for SMEs in the US in 1998 contributing up to one third of the total debt of these
firms. The popularity of trade credit as a source of finance, was attributed to the ease of availability to the different firms by the authors (Ibid). Other sources have differing levels of importance at different stages of the life cycle with some stages having higher levels of importance for each source vis-a-vis the equity levels.

6.5 CONCLUSION

This chapter concentrated on the development of a model that outlines the capital structure for the financial sustainability of the firm along the organization life cycle in Uganda. The chapter starts with a review of the capital structure of SMEs in Uganda along the life cycle, followed by a review of all the sources of finance regardless of whether they are short or long term in nature. The chapter presents the recommended model based on a regression equation before concluding it with a graphical presentation of the suggested model.

Generally, the application of the model by a firm is likely to give a higher probability to the organization of being financially sustainable over the different stages of the organizational life cycle through the increase of its non-current asset value, increase in turnover and profitability as observed among the firms in the empirical study. Inability to adopt the model would imply that firms continue through the normal trial and error of simply adopting any capital structure without proper planning and preparation. This is likely to lead to unexpected growth and decline cycles by the firms with low level of certainty regarding financial sustainability.
CHAPTER SEVEN
CONCLUSION AND STUDY IMPLICATION

7.1 INTRODUCTION

This chapter concludes by highlighting the key lessons identified from the study, the conclusion and recommendations as well as the contribution and possible areas for further research. The chapter starts with a summary of the findings based on the objectives of the study, followed by the contribution of the study to the existing knowledge of financing SMEs in Uganda. An outline of the recommendations arising from the study and the suggested research areas that have been identified during the study are also presented. The chapter ends with the limitation of this study.

7.2 SUMMARY OF FINDINGS AND CONCLUSION

The main objective of this study was to develop a financing model that would contribute towards financial sustainability of SMEs in Uganda along the organizational life cycle. In pursuit of this overall objective, specific objectives about the financing or capital mix at the different stages of the organizational life cycle were developed. These were based on the popular stages of the life cycle; Start up, Growth, Maturity and Decline (Karniouchina, Carson, Short & Ketchen Jr. 2013:1011).

In order to address the objectives of the study, each chapter had a different contribution towards the study objectives as indicated below.

Chapter one presented the introduction and background to the study and this was the foundation towards meeting the objectives of the whole study. The chapter dealt with the identified problem in the context of the researcher as well as a breakdown of the objectives of the study for the reader to fully understand the direction that the study would take. The chapter also presented a high level view of the entire study highlighting the research design and methodology, the literature review brief, the ethical consideration as well as the planned layout of the report. Ultimately the chapter formed the springboard upon which the entire study was based right from the problem identification to the ethical consideration.

Chapter two presented the theoretical background to the study which was critical in understanding of the existing theories around the study. It focused on the theoretical review of the existing literature on the key concepts of the study including financing,
organizational sustainability, Small and Medium Enterprises and organizational life cycle stages. The review of existing literature on Small and Medium Enterprises as well as organizational life cycle stages facilitated the understanding of the unit of analysis, and how important SMEs are to an economy like Uganda. The organizational life cycle stages forming the basis of the empirical research objectives were thoroughly reviewed focusing on existing literature to facilitate the building of a firm foundation for the methodology that would be appropriate in facilitating the generation of information to answer the research objectives.

Chapter three focused on the research methodology from the research philosophy, through the research approach, study population and sampling to the data collection methods and data analysis. This chapter provided the link between the study planned and the actual study by showing the implementation plan of the entire study. The chapter detailed the process of the study implementation by specifying the methods, the instruments, measures, tools and controls to use and follow during the study.

Chapter four presented the findings of the study and was divided into two sections. The first section is dedicated towards presentation of findings from the qualitative data while the second one presents the findings from the qualitative data. Both sections under this chapter presented the findings following the empirical objectives of the study.

Chapter five presented a detailed analysis of the findings in line with the empirical research objectives. The chapter starts with an explanation of the measurement and use of the variables followed by objective analysis of the findings. The chapter lays the ground for the development of the financing model for SMEs along the organizational life cycle based on the empirical study findings which was the primary objective of the study.

Chapter six was dedicated to the fulfilment of the primary objective of the study. The chapter developed the financing model that was derived from the empirical study findings. The chapter shows both the model based on the quantitative data generated from the study and a graphical representation of the financing sources along the organizational life cycle.

Chapter seven presents the summary and conclusion to the study by presenting highlights from each chapter, a summary of the key findings based on the themes of the empirical objectives as well as the recommendations.
The conclusions under each theme of the empirical study are presented below with reference to findings by other scholars for purposes of comparison where similarities and differences are noted.

7.2.1 Leverage at the start up stage

The start-up stage of the life cycle is possibly the most challenging of the identified stages as far as financing is concerned. Firms at this stage have limited access to financing sources with the main source of finance being owners’ equity according to the findings of the study. The sources of finance other than equity available to start-up firms are still limited to use of informal sources such as obtaining bailouts from friends and family. The findings of the study for this stage are largely in agreement with findings from other researchers such as Timmons and Spinelli, (2004:109) who conclude that small, young firms tend to draw financing from internal sources, informal investments and use friends and family sources. It is the same conclusion reached by Cassar (2004: 278), who attributes the scenario to a lack of trading history while Huyghebaert and Van de Gucht (2007:119) attributed this to the high risk of potential failure of business by firms at the start up stage. Abdulsaleh and Worthington (2013:40) attributed the limited access to external sources to the moral hazard and problems with information opacity which are severe at this stage of the life cycle, forcing such firms to pay more attention to the owner-manager personal savings. Study findings from the managers and owners of firms at the start up stage indicated that there is a tendency for such individuals to shy away from approaching institutions for external sources largely due to lack of confidence and information asymmetry. This is based on stories heard from other entrepreneurs whose assets may have been foreclosed by financial institutions due to failure to service their loan obligations. Generally, the results show that firms at the start up stage mainly use internal sources combined with some informal sources of finance and some use trade credit as a short term source of finance for their operations. This is in line with the findings of Fatoki and Odeyemi (2010:2764), who argued that trade credit is highly demanded by new and young firms when the risk of default is high during the early years of operations. The findings of the study helped to respond to the first empirical objective on how the mix of debt and equity affects financial sustainability at the start up stage of the organizational life cycle.
7.2.2 Leverage at the growth stage

According to the findings of the study, the growth stage of the firm is where there is tremendous pressure on the management to raise funds beyond the shareholders’ equity. At this stage, firms heavily depend on all the sources common at the start up stage but with additional heavy reliance on trade credit for short term financing. It is at this stage that clear evidence of long term debt manifests itself. Short term sources of finance including short term bank loans and overdrafts start taking a dominant position in financing at this stage. The findings also indicated that firms at this stage scavenge for financing from many sources including money lenders whose cost of finance are generally higher than the formal sources of finance. The costly nature of these informal sources are hidden in the fact that they charge interest on a monthly basis which appears to be low to the managers yet in reality when annualised it is way above the formal sources.

From the empirical study, at the growth stage pressure is also exerted on the shareholders to raise additional share capital to match the level of debt exhibited at this stage. This is in line with the findings of Phelps, Adams, and Bessant (2007:10), who indicated that growing firms move from reliance on initial funders to outside fund providers as pressure is mounted on the firm. The growing reliance on the external sources could be attributed to both financial pressure on the growing firms as well as the credit history or reputation that would have been gained by these firms over their period of existence. Firms at this stage tend to outmatch the internal sources by the external sources of finance in that on average firms have more funding from external sources than the internal sources. Empirical findings from the SMEs in Uganda indicated that managers of firms at the growth stage relied heavily on trade references given by the suppliers of trade credit while accessing funding from financial institutions. Managers indicated that use of short term bank loans and overdraft facilities highly facilitate the payments to suppliers who would have supplied goods on credit. Due to this arrangement, suppliers are always willing to give a high credit rating to financial institutions when called upon because they are aware that the money would be used to pay them for goods supplied earlier. This partly explains why both trade credit and short term sources of finance such as bank loans and overdrafts are almost equally important, common and prominent at the growth stage of the life cycle. Berger and Udell (1998:621) seem to attribute the focus on external sources on the modern information theory of security design and notion of financial
pecking order which is to the effect that as organizations grow, they develop better systems that can help “outsiders” to know more about these firms.

In addition, as the firms grow, the internal sources of finance reach their maximum limits calling for support outside of these sources. The authors (Ibid) also indicated that in the context of US, high growth firms tend to have access to venture capital and business angels who can allow for the high risk associated with them. In the case of the SMEs in Uganda, firms at the growth stage did not have access to venture capital or what one would call business angels. However, the friends and family source which is an informal form of business angels was common among these firms even if its importance was way below that for firms at the start up stage. It is important to note that as much as firms at the growth stage tend to use a lot of borrowed funds, the major sources are short term in nature and as such do not contribute to the leverage or capital structure of these firms. The findings adequately responded to the second empirical objective of determining if the existing finance leverage at the growth stage make meaningful impact on financial sustainability of the firms. This was found to be the case among the firms at this stage of the organizational life cycle.

**7.2.3 Leverage at maturity stage**

Findings for firms at this stage indicate a stage where firms have the largest spectrum of possible sources of finance. All potential sources of finance (short and long term) available on the Ugandan market were available to the majority of firms at the maturity stage with the exception of friends and family sources which seem to take a back seat at this stage. This could possibly be based on the informal nature of the friends and family source yet organizations at this stage are at the highest level of operating as formal entities. It is at this stage that firms exhibited an almost equal importance between internal sources and the external sources of finance with each unit of internal sources almost being matched to a unit of external sources. The availability of different sources at this stage is in line with the assertions of Abdulsaleh and Worthington (2013:36) who indicated that as firms grow, they establish a track record that boast their ability to provide collateral security for external sources of funding. With the above in place, they improve on their creditworthiness which improves on their ability to attract those who can provide financial resources. Firms at this stage portrayed the closest resemblance to the pecking order theory (Myers 2001:93-94) where after the internal sources, short term loans and bank overdrafts were given preference followed by long term debt in other forms. The only
missing source that was not available to give full compliance with the pecking order was the externally issued equity with no firm under this stage having such any form of equity through public issue of shares. The findings generally responded to the third empirical objective of determining how financing mechanisms at the maturity stage compliment those at the growth stage of the organization life cycle. Evidence was noticed on the clear transformation from the earlier stage by the different financing arrangements exhibited by firms at this stage.

7.2.4 Leverage at the decline stage

The major findings of the study among firms at this stage included the fact that firms tend to reduce on the proportion of external sources against internal sources. There appears to be a bit of calm among the firms as far as financing is concerned. Firms tend to reduce reliance on short term external sources and use more of long term external sources. The use of bank overdrafts reduces and the empirical findings from the interviews seem to point to the fact that long term sources are cheaper in the long run to these firms. Given that the track record is already established at this stage and that firms have substantial amounts of collateral, the major driving factor of the sources of finance is the cost benefit analysis that firms carry out. For the entire study, it was only at this stage that a small proportion of firms reported the use of government grants. The proportion was less than 5% of all firms at this stage alone. This means that as far as government grants are concerned, it is of little or nearly no relevance to SMEs in the country. The foregoing conclusion is contrary to the finding of Saemundsson and Dahlstrand (1999) cited in Reynolds et al. (1999:642), where for the US SMEs it was found that up to one third of them had benefited from some kind of government support in the form of grants or loans. That leads to the conclusion that, there are differences between developed and developing economies as far as Government support to SME financing is concerned. In terms of leverage, firms at the decline stage tended to have the highest level of leverage and the model points towards the same conclusion. This is most likely from the fact that these firms used more of long term funding sources which contribute towards the capital structure compared to firms in other stages where short term sources played a substantial role in their financing sources. Findings at this stage did not bring out a clear response to the fourth empirical objective of how SMEs can apply leverage financing mechanisms to rejuvenate themselves at the organization’s decline stage of their life cycle. This is possibly because at the onset of the study, the assumption was that at the decline stage,
firms would pursue business rejuvenation to control or reverse the decline. However, the empirical findings indicated that firms at the decline stage were comfortable with their operations and there were no indications of them undertaking strategies to rejuvenate their businesses.

7.3 CONTRIBUTION OF THE STUDY

The study set out to develop a sustainable financing model for SMEs along the organizational life cycle in Uganda and this is the major contribution of the study to theory as well as to the identified stakeholders in practice.

7.3.1 Contribution to theory

This was a study for SMEs in Uganda focusing on the financing or capital structure of such firms as they move through the different stages of the life cycle. The findings of Berger and Udell (1998:624) indicate that each stage of the organizational life cycle presents different financing needs and hence requires unique financing options for a firm to be sustainable. The study hence responds to that assertion in the context of SMEs in Uganda building knowledge in area of financing and setting up a foundation against which future tests, criticism and research may be built. From the study there are defined sources of finance that are largely unknown among SMEs in the country such as venture capital yet these are given prominence in other economies. At the same time an important source of finance that is largely informal in other economies of friends and family is well grounded among the SMEs in Uganda especially among firms at the start up and growth stage of the life cycle. This is of great value to the existing body of knowledge. In line with the above, the study brought to fore a previously non-existing model that can be adopted to predict the sustainability of SMEs as they progress along the organizational life cycle.

Other than the above, the study sets out a guide that can provide broad guidance to the capital structure decisions of the SMEs in the country through an indication of the prominent financing sources among the SMEs. The presentation of a clear graphical model with such guidance can provide support to many organizations that may otherwise have shunned the academic and more rigorous model that is based on the statistical concept of regression analysis.

Lastly the vital contribution of the SMEs (Wanyama 2013:29) in Uganda towards economic development, employment and economic contribution towards Government revenue in form of taxes that is brought to the fore by this study creates a rich platform
that stakeholders should take advantage of in order to harness and protect these firms from economic shocks that may be detrimental to the entire country.

7.3.2 Contribution to practice

The contribution to practice is presented based on the stakeholders of the financing value chain and the those interested in financial sustainability of these SMEs.

Financial institutions and other fund providers: The study unveils the perception of the key actors in the financing decision originating from the managers to the owners of SMEs in the country. Fear to lose control by the shareholders of the SMEs is the driving factor towards their inability to raise funds for the expansion and growth of these firms. With this perception, the study provides an avenue for decision makers to devise financing products for the SMEs that do not take away the control of the owners of such firms but again provide support for growth and expansion.

Government and related agencies: A major contribution of the study is the realisation that despite the numerous Government programmes in support of investment that are in place in the country, there seems to be no tangible and recognisable funding to the SMEs despite them being referred to as the engine of growth for the economy. It is important for Government programmes to specifically design measures that target SMEs because the findings indicate that, it is a few firms at the tail end of the organizational life cycle that recognise the use of Government grants in their financing. This points to the fact that Government grants tend to focus on big and possibly well-established firms that have already succeeded on their own rather than those that actually need the financial input to be able to prosper.

7.4 IMPLICATION OF THE STUDY

From the findings of the study, the following are the implications to the different stakeholders starting with the financial institutions, the managers and owners of SMEs and Government.

(a) Financial institutions and other fund providers ought to develop financing products that cater for the interests of the SMEs at the different stages of the life cycle.

- At the start up stage, firms lack a track record as well as collateral to act as security and as such the fund providers should develop products that take into
consideration the above conditions but with other safe guards to ensure repayment.

- At the growth stage, providers of funds should take note that the demand for financing is at its highest and that it is at this stage that they can optimise their returns by extending funding to a wide range of firms to support these growing businesses.

- At the maturity stage, financial institutions should be aware that firms have a reducing appetite for short term sources of finance and an increasing one for long term sources of finance. Focus should be on exploiting the market for long term sources of finance available among these firms.

- At the decline stage, financial providers should be aware that these firms are reluctant to pursue additional credit and their major emphasis is on the cost benefit analysis of the source. Since firms are well established at this stage, financial institutions should focus on providing low risk and low cost sources to such organizations.

- In a generic way, financial institutions should increase on awareness creation about the products that they have on offer. A number of SMEs are not aware of some of the typically important products offered by financial institutions. This should also be the same with other fund providers such as the Uganda Securities Exchange. Virtually all firms where the management was asked about a possible use of the exchange to raise funds was met with a standard response of the firm not being in position to because of its financial muscle. This was the same even for firms that on assessment might have the requirements to join at least the Alternative Investment Market Segment (AIMS) or the Growth Enterprise Market Segment (GEMS).

(b) Managers and owners of SMEs

- As the primary stakeholders in the firms, managers and owners should equip themselves with the information available on the market regarding the different financing sources. The lack of awareness and information asymmetry that is exhibited by different firms leads to such firms going for high cost sources of finance such as money lenders which they classify as normal debt. This is largely due to the assumption that such informal sources are cheap and easily accessible.
• Given the nature of SMEs in the country in terms of size, it is advisable that such firms form associations that would bring together a number of firms to provide a reasonable bargaining capacity as well as creating a mechanism of credit-worthiness for the individual members that is based on the creditworthiness of the association. The association can in itself alleviate the challenge of lack of awareness about market products that SMEs can benefit from through the sharing of information about such products.

(c) Government and its agencies

• In order to facilitate the sustainability of SMEs in Uganda that are regarded as engines of economic growth, Government agencies should provide focused products that facilitate the improvement of the creditworthiness of SMEs, support sharing of information about Government support initiatives and available opportunities in the market as well creation of a forum. This helps to share information between these entities and the Government so that firms do not feel as if government policies such as taxation are an impediment to their success.

• A policy shift from the current Government intentions in support of the SMEs is critical to ensure that these intentions create meaningful impact on the sustainability of these SMEs since they are engines of growth. The desirable shift would necessitate, Government interventions being customised so that they promote firms at each stages of the life cycle to compete with firms at the same stage rather than defined evaluation criteria that is meant for all firms and was found to only favour firms that are at the decline stage of the life cycle.

7.5 AREAS FOR FUTURE RESEARCH

In this study the classification of firms along the organizational life cycle stages was based on; organizational structure, growth in turnover, profitability and non-current assets in line with Hanks et al. (1993:6). A number of authors have argued for different ways of classifying the firms within the organizational life cycle and these present room for future research. Various scholars have used the recommendations of Dickinson (2011:1976) who used cash flows from operating activities, cash flows from investing activities and cash flows from financing activities as a basis for classification of SMEs.

Other classifications that can be used to gauge the sustainable financing model of firms can be use of size of the firm in terms of other parameters other than those used in the
study, suggested parameters can be number of employees, income tax payable per annum, market share, age of the firm. Other than using those for reclassification, it would be interesting to further interrogate the data to find out how factors such as number of shareholders in a company, the industry within which the firm operates and the sex or gender of the owners and/or managers influence the financing decision of the firms.

Lastly, given the nature of the SMEs that were part of the sample largely coming from the capital city (Kampala district), it would be of value if in future, studies factoring in the location of the firms are undertaken. This would also reduce on the generalisation that comes with using a sample with an urban centre bias and applying the same to all firms.

7.6 LIMITATIONS OF THE STUDY

The major limitations associated with the study and the courses of action followed to address them are listed below.

1) The existence of different arguments regarding the stages of the organizational life cycle presented the major limitation associated with this study. Much as a number of authors have written about the organizational life cycle stages for firms, there are disagreements on the actual number of stages with variation from as low as three to as many as 10 (Phelps, Adams, and Bessant (2007:4). According to Levie and Hay (1998:101), recent large scale empirical studies indicate that firms do not develop according to pre-set sequence but rather appear to evolve through each one’s unique way depending on the stability of their states and managerial capability. In order to minimise on the effect of this limitation, a well-known and most widely acceptable approach proposed by Hanks et al. (1993:12) is adopted. The approach gives confidence in its use in that it provides clear measurable indicators for each firm to be classified in a given stage unlike the numerous approaches that typically make counter argument to show why the stages actually do not exist.

2) The concentration of most of the firms within the capital city of the country presented a limitation to generalisation. To address this limitation, effort was taken to ensure that all firms that were part of the sampling frame and were from outside the capital city, were automatically included in the final sample. Unfortunately, even with this approach, the firms were only a handful representing a small proportion
of the final sample. It is for this reason that in the areas for further research a recommendation to this effect is included.

7.7 FINAL CONCLUSION

This study set out to develop a sustainable financing model for SMEs along the organizational life cycle in Uganda. In doing so, a sampling frame of 100 SMEs in the country was used and sample of 74 firms selected. These were subjected to different data collection methods and tools. Of these, responses were received from 72 firms and the analysis used the data from these firms. The analysis, initially centred on classifying the SMEs in the study under different stages basing on the available literature before analysing the financing models for the firms under each stage. Generally, it was observed that SMEs gradually adjust their financing sources as they progress through the different stages of the organizational life cycle. Initially the focus is on the internal sources which are supplemented with external sources in the subsequent stages starting with the short term sources before the long term sources also take shape. Broadly, the study findings agree with the views of Berger and Udell (1998:624) who argued that as a small firm transcends through the different stages of the life cycle, it tends to use more outside sources of funds.

This study originated from the problem statement identified in chapter one. The problem that the study set out to address was the non-existence of a model that explains the appropriate financing mechanisms for SMEs’ financial sustainability in Uganda as they progress along the organizational life cycle. Using the available literature, the study focused on the categorisation of SMEs along the different stages of the life cycle and after this categorisation, the discussed methodology was used to collect data that was appropriate to respond to the research objectives and there by address the problem identified. Using the data collected both qualitatively and quantitatively, a financing model was developed to contribute towards the financial sustainability of SMEs along the organization’s life cycle in Uganda in fulfilment of the primary objective of the study.
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Date of access 20 Aug 2015


Date of access 12 Aug 2015. 


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Appendix 1.1: Survey Questionnaire

Survey Instrument: Organizational Life cycle characteristics

Dear Respondent

This is a survey Instrument meant to gather general information about this organization regarding the organizational structure, decision making mechanism, product or service development, sales or revenue growth, staff turnover, financial growth and other generic information.

The data gathered is to be used for analysis in a study with the theme: Developing a sustainable financing model for SMEs during the organizational life cycle in Uganda.

Your honest response to the statements in this instrument will go a long way in generating information that may be used to support SME firms in the country.

Please be assured that the information provided will never be traced back to you in anyway (other than for clarification by the researcher) as it will be combined with information from other similar firms and treated as one batch during the analysis stage.

Thank you for sparing your valuable time to respond to the questionnaire.

Section A: General Information: Please provide response in the space provided

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<tr>
<td>1.</td>
<td>How many employees work with the firm?</td>
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<td>2.</td>
<td>What was your total turnover last year?</td>
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<td>3.</td>
<td>What is your average working capital requirement (estimate)?</td>
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<td>4.</td>
<td>What was your total asset base valuation Last year?</td>
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<td>5.</td>
<td>How many branches did the firm have last year?</td>
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For Section B to I, please indicate the extent of your agreement with each of the statements by circling the appropriate point on the scale provided. The scale is as follows:

1. you strongly disagree; 2. you disagree 3 you are Neutral or not sure 4. you agree and 5. you strongly agree to the statement
Section B: Organizational structure Indicators

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<tr>
<td>6</td>
<td>There is centralised organizational structure in this firm</td>
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<td>7</td>
<td>Decision is largely driven by the CEO/Owner(s) of the firm</td>
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<td>8</td>
<td>The firm is owned by not more than 2 shareholders</td>
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<td>9</td>
<td>The owner(s) actively manages the day to day running of the firm</td>
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<td>10</td>
<td>The firm has many layers of management (E.g. Support, Low level management, Mid-level Management, Top level management )</td>
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<td>11</td>
<td>The firm has an approved organization organogram</td>
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<td>12</td>
<td>The firm has an approved organizational strategic plan</td>
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<td>13</td>
<td>The firm has an approved business plan</td>
<td></td>
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<td>14</td>
<td>The firm has an operational plan</td>
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Please provide an appropriate response to the questions below in the provided space

(a) What are the key challenges faced by the organization in terms of decision making?
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(b) What recommendations would you make towards the improvement of the organizational working environment?
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(c) When was this organization registered with the registrar of companies?
.................................
Section C: Asset Base Indicators

15. The firm’s larger portion of its assets are non-current assets 1 2 3 4 5
16. Non-current assets of the firm have been increasing in the last 3 years 1 2 3 4 5
17. Aging non-current assets of the firm are replaced regularly 1 2 3 4 5
18. Non-current assets are largely funded using the firm’s internal funds 1 2 3 4 5

Part 2: Please provide an appropriate response to the questions below in the provided space

a) What are the main challenges associated with the management of assets for the firm?

b) What recommendations would you front to improve on asset management for the firm?

Section D: Product Development Indicators

19. The firm deals in a few products or services (less five) 1 2 3 4 5
20. The firm is comfortable with its current product/service offerings 1 2 3 4 5
21. The firm is working on increasing the number of products/services it offers 1 2 3 4 5
22. The firm supports new product/service innovations by staff 1 2 3 4 5
23. The firm’s products dominate the market segment they are in 1 2 3 4 5

Part 2: Please provide an appropriate response to the questions below in the provided space

a) What are the main challenges associated with new products/service development in the firm? 

b) What recommendations would you front to improve on asset management for the firm?
b) What recommendations would you front to improve on new product/service
development?

Section E: Staff turnover Indicators

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<td>24.</td>
<td>The firm has a designated Human resources manager</td>
<td>1</td>
<td>2</td>
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<tr>
<td>25.</td>
<td>The organization’s management is professionally recruited</td>
<td>1</td>
<td>2</td>
<td>3</td>
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<tr>
<td>26.</td>
<td>There is formal training for staff members of the firm</td>
<td>1</td>
<td>2</td>
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<tr>
<td>27.</td>
<td>Most of the staff members remain with the firm for more than two years</td>
<td>1</td>
<td>2</td>
<td>3</td>
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<tr>
<td>28.</td>
<td>There is a formal performance evaluation criteria in the firm</td>
<td>1</td>
<td>2</td>
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Part 2: Please provide an appropriate response to the questions below in the provided space

a) What are the main challenges associated with HR management in the firm?

b) What recommendations would you front to improve HR management for the firm?

Section G: Turnover and Sales Indicators

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<td>29.</td>
<td>The firm’s Turnover has been increasing over the last three years</td>
<td>1</td>
<td>2</td>
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<tr>
<td>30.</td>
<td>The firm’s turnover is currently at a satisfactory level</td>
<td>1</td>
<td>2</td>
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<td>31.</td>
<td>The firm’s turnover has been consistently within the planning levels</td>
<td>1</td>
<td>2</td>
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<td>32.</td>
<td>The firm’s turnover is projected to grow over the next 3 years</td>
<td>1</td>
<td>2</td>
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<td>33.</td>
<td>The general demand for the firm’s products and services is increasing</td>
<td>1</td>
<td>2</td>
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</table>
Part 2: Please provide an appropriate response to the questions below in the provided space

a) What are the main challenges associated with the future sales of the firm?

b) What recommendations would you forward to improve futures sales for the firm?

Section H: Profitability Indicators

34. The firm’s returns (profits) have been increasing over time 1 2 3 4 5
35. The firm’s internal cash flows are sufficient to support funding of the firm’s activities 1 2 3 4 5
36 The firm uses external funding to meet working capital 1 2 3 4 5
37 This firm annually pays dividends to the shareholders 1 2 3 4 5
38 The firm pays attention to managing costs of production 1 2 3 4 5
39 The firm’s products/services must fit a defined market price 1 2 3 4 5
### Section I: Financing Indicators

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<td>40.</td>
<td>The firm relies more on internal financing for its operations</td>
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<td>41.</td>
<td>The firm relies more on internal financing for its growth</td>
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<tr>
<td>42.</td>
<td>The firm’s internal financing is sufficient for its future expansion</td>
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<td>43.</td>
<td>The firm uses the following regularly as a source of financing</td>
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<td></td>
<td>• Long term bank loans</td>
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<td>• Short term bank loans</td>
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<td></td>
<td>• Bank over drafts</td>
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<td></td>
<td>• Lease finance</td>
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<td></td>
<td>• Mortgage finance</td>
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<td>• Hire purchase</td>
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<td></td>
<td>• Government grants</td>
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<tr>
<td></td>
<td>• Trade credit</td>
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</tbody>
</table>

### Part 2: Please provide an appropriate response to the questions below in the provided space

a) What are the main challenges associated with the sources of the firm’s financing?

b) What recommendations would you front to address the challenges above?

Thank you for filling in this instrument
Appendix 1.2: Financial Data collection tool

Data collection tool for financial information

<table>
<thead>
<tr>
<th>For Researcher’s use only</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>code assigned</td>
<td></td>
</tr>
<tr>
<td>Organization’s code</td>
<td></td>
</tr>
<tr>
<td>Respondent’s code</td>
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</tr>
</tbody>
</table>

INCOME STATEMENT DATA

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<thead>
<tr>
<th>Item</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td></td>
<td></td>
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<tr>
<td>Gross Profit/Income</td>
<td></td>
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<tr>
<td>PBIT</td>
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<td></td>
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<tr>
<td>PAT</td>
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</tbody>
</table>

STATEMENT OF FINANCIAL POSITION DATA

<table>
<thead>
<tr>
<th>Item</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Share Capital</td>
<td></td>
<td></td>
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<tr>
<td>Retained Earnings</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Other Equity sources</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Long Term Borrowing**</td>
<td></td>
<td></td>
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<tr>
<td>Short term borrowings**</td>
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</tbody>
</table>

** Provide list of the different types below and their values.
Appendix 1.3: Interview Guide

Interview Protocol and themes for the Interviews

1. Introduce self to respondent.
2. Present consent form, go over contents, answer questions and concerns of respondent.
4. Follow procedure to introduce respondent with pseudonym/coded, identification; note the date and time.
5. Begin interview with them 1; follow through to final theme.
6. Follow up with additional questions where required.
7. End interview by thanking the respondent.

Interview themes

1. Background information about respondent including: Education, work experience and standing in the firm
2. Economic environment, regulatory framework, government contribution
3. The general set up of the organization, structure, systems, decision making
4. Sales related growth and forecasts.
5. Profitability projections and past experience
6. Product or service innovation, diversity and future prospects
7. Employee Management, structure of recruitment, professionalization of workforce
8. Asset base information and the main source for funding
9. General sources of funding working capital and operational issues
10. Any follow up questions
Appendix 1.4: Informed Consent for Field work

Title of the Study: Developing a sustainable financing model for SMEs during the organizational life cycle in Uganda

Researcher: Paddy Mugambe

Institution: North West University, Vaal Triangle Campus, South Africa

About this consent form:

Please read this form carefully. This form provides information about participating in this research study. You have been selected as one of the potential 74 respondents for this study. As a prospective research participant, you have the right to take your time in making decisions about participating in this research. If you have any questions about the research or any portion of this form, please ask.

Voluntary Participation

You were randomly selected to take part in this research study. The participants in the study have been purposively sampled because they are considered to have insights, opinions, ideas and experiences in the aspects covered by the research. It is your choice whether or not to take part in this research. If you choose to take part, you may change your mind and leave the study at any time of your convenience. Refusal to participate or withdrawal will not have any personal bearing on you. In summary:

- A research study is something you volunteer for.
- You can choose not to take part in the research study.
- You can agree to take part now and later change your mind.
- Whatever you decide will not be held against you.
- Feel free to ask all the questions you want before and after you decide.

What is the purpose of this research?

The purpose of this study is to eventually develop a sustainable financing model for SMEs along the organizational life cycle in Uganda which will in future help firms like yours to take better financing decisions.

Procedure to be followed

If you agree to participate in this research, the researcher or research assistant will administer a questionnaire expected to last a maximum of one hour. A sample of this questionnaire is available for you to preview before it is administered. Your responsibility is to respond to the asked question in a truthful way.
What are the risks and possible discomforts?

There is no foreseeable risk of harm or discomfort that will arise from your participation in this study. The only risk or discomfort will be the inconvenience in terms of time taken up while the questionnaire is being administered equivalent to 1 hour, but everything possible will be done to ensure that your work is not so adversely interrupted.

Confidentiality of data and information

The information we collect from this survey will be kept private and confidential. The researcher will fill in the questionnaire as per your response. Your name and/or that of the firm will not be listed in any report that comes out of the research. Any record of the responses will be anonymous and transcription of the same will make use of codes for identification purposes. These codes will only be known to the researcher for purposes of analysis.

Are there any benefits from being in this research study?

Participating in this interview will not lead to a direct personal benefit but will enable you contribute to the body of knowledge on the issue of financing Small and Medium Enterprises in Uganda and globally. The findings of the study if you so wish, shall be shared with you.

If I have any questions or concerns about this research study, whom can I talk to?

If you have any questions related to this study, or your rights as a research participant, you can contact the researcher,

Paddy Mugambe

Phone: +256 772 539458 or +256703331532

Email address: paddymuiqambe@yahoo.com
**Statement of Voluntariness:**

Participation in the research is voluntary and you may join on your own free will. You have a right to withdraw from the study at any time without penalty. The ethical considerations for the study have been scrutinised and approved by Gulu University Research Ethics Committee following Uganda National Council of Science and Technology Guidelines.

If you have any issues pertaining to your rights and participation in the study, please contact the Chairperson, Gulu University Research Ethics Committee, Dr. Gerald Obai Tel: No., 0772305621; email: lekobai@yahoo.com/lekobai@gmail.com; or the Uganda National Council for Science and Technology, on plot 6 Kimera road, Ntinda, Kampala on Tel 0414 705500.

**Statement of consent**

The researcher has described to me what is going to be done, the risks, the benefits involved and my rights as a participant in this study. I understand that my decision to participate in this study will not affect me in any way. In the use of this information, my identity will be concealed. I am aware that I may withdraw at any time. I understand that by signing this form, I do not waive any of my legal rights but merely indicate that I have been informed about the research study in which I am voluntarily agreeing to participate. A copy of this form will be provided to me.

Name …………………………………………… Signature of participant ……………………………

Date ……………………………

Name………………………………………… Signature of researcher ……………………………

Date…………………………………...
LETTER OF CERTIFICATION

Dear Sir/Madam,

RE: Confirmation of Editing the PhD Dissertation

This is to certify that I have edited Paddy Mugambe’s PhD Dissertation titled ‘Developing a sustainable financing model for SMEs during the organizational life cycle in Uganda’.

In the course of editing, the following were taken care of;

- Correcting grammatical, spellings, phrases, punctuation and other language errors.
- Ensuring consistency in style and formatting of the Thesis.
- Checking for coherence of the content.
- Checking figures and tables to ensure they are correctly numbered, positioned, titled and have matching information to the content.
- Ensuring that references are consistent in a systematic style.
- Raising queries and comments where need be.

Yours faithfully,

Agaba Catherine
Editor at Fountain Publishers, Kampala
Tel: 0772 475473/ 0705 741794
Email: agabacatherine5@gmail.com