Exploring the role of corporate control in SME attitude toward private equity financing

Undergraduate Thesis

Undergraduate Thesis submitted to the Business Administration Department of Ashesi University, in partial fulfillment of the requirements for a of Bachelor of Science Degree in Business Administration.

By

SAMUEL NUNOO

April 2021

CORPORATE CONTROL AND SME ATTITUDE TOWARD PRIVATE EQUITY FINANCING

DECLARATION

I hereby declare that this undergraduate thesis is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature: .....

Candidate's Name: Nunoo Samuel Nii

Date: April 27th, 2021

I hereby declare that the preparation and presentation of this undergraduate thesis were supervised in accordance with the guidelines on supervision of undergraduate thesis laid down by Ashesi University.

Supervisor's Signature: .....

Supervisor's Name: Esther A. Laryea

Date: April 27th, 2021

ACKNOWLEDGMENTS

First and foremost, I want to thank God for allowing me to attend Ashesi and for sustaining me through my stay in Ashesi. I would also like to express my profound gratitude to my supervisor, Madame Esther Laryea, for her guidance and direction throughout the writing of this dissertation.

To my dearest mother, I would like to say a big thank you for your immense emotional support in writing this dissertation. I could not have completed this paper without you.

To my colleagues Leslie Gokah, Andrew Kuwornu, Sean Anum, and Andrew Francis Lomotey, I would like to thank you for your support in completing this dissertation.

CORPORATE CONTROL AND SME ATTITUDE TOWARD PRIVATE EQUITY FINANCING

Abstract

Small and Medium Enterprises (SMEs) undoubtedly play a vital role in the growth of economies worldwide. Despite this, SMEs are plagued with several difficulties, with access to finance being the primary problem SMEs face. Private equity has been identified as a potent source of capital to foster the growth of SMEs. However, the management control mechanisms instituted by private equity firms to safeguard their investment may be an area of concern for SMEs.

The main objective of this paper was to determine the willingness of SMEs to accept private equity, considering the management control mechanisms likely to be instituted by private equity firms. This study adopted a quantitative method of analysis in determining whether firm characteristics and management control mechanism, specifically the involvement of the private equity firm in the human resource issues of the firm and the participation of the private equity firms in operations of the SME, affect the willingness of SMEs to accept private equity.

The findings from the study show that management control mechanisms instituted by private equity firms affect the SME's willingness to adopt private equity. However, the involvement of private equity firms in the hiring process of SMEs is more significant in determining the probability of SMEs subscribing to private equity.

This paper contributes to the literature on SMEs in Ghana and provides recommendations on how private equity firms can structure contract negotiations to attract SME subscriptions.

Keywords: SMEs, SME financing, private equity, management control mechanisms

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CORPORATE CONTROL AND SME ATTITUDE TOWARD PRIVATE EQUITY FINANCING

CHAPTER 1: INTRODUCTION

1.1 Background

Small and Medium Enterprises, popularly referred to as SMEs, are considered one of the primary means through which countries can achieve their economic growth objectives. Besides the unique growth opportunities, SMEs present through their role as an efficient and prolific job creation tool, they also increase innovation rates in many industries. A study conducted by economists Acs and Audretsch (1987) revealed that the mean innovation rate of small firms tends to be significantly larger than that of large firms as SMEs are keen on discovering ways to drive innovation in their firms and respective industries. Many developed countries have realized the enormous potential of SMEs and have transformed these potentials into steady economic gains. In Europe, SMEs have been identified as the drivers of past economic growth and are still considered key to unlocking future economic growth (Dowling et al., 2019). In developing countries, although SMEs play a significant role in economic activities, their potential remains untapped. In the case of Africa, SMEs contribute to over 50% of employment and GDP (UNIDO, 1999), but the continent continues to face alarming rates of poverty and unemployment. Local governments and international organizations continue to increase efforts to aid the growth of SMEs in Africa and ensure the sector's development. The World Bank Group approved more than $10 billion in SME support programs between 1998 – 2002 and $1.3 billion in 2003 (Beck et al., 2005).

In Ghana, notably, SMEs account for approximately 92% of businesses and contribute to 70% of Ghana's GDP (Abor & Quartey, 2010). This data is evidence of the economic weight of SMEs in the Ghanaian economy, their crucial role in the generation of employment, and their potential as a means of alleviating poverty in the country. Notwithstanding the importance of

SMEs in the economy, the mere presence of SMEs does not guarantee economic growth; it is the ability of SMEs to scale up efficiently to medium and large firms that leads to the expansion of industries and the fostering of economic growth. For the nation's economy to grow, small enterprises need to scale up and develop into organizations where they will be able to adapt efficient production techniques to serve larger markets (Quartey et al., 2017).

1.1.1 Efforts of Government

The Government of Ghana has realized the value of SMEs to the economy. It has introduced several initiatives and institutions to ensure that SMEs receive the support needed to progress efficiently. One such institution is the National Board for Small Scale Industries (NBSSI). Established by Parliament in 1981 (Act 434), the NBSSI is one of the government's oldest institutions established to support SME growth. The NBSSI exists to create an enabling environment for SMEs, facilitate access to credit and provide substantial and high-quality business development services to SMEs (About Us – National Board for Small Scale Industries, n.d.). The government has been able to use the NBSSI in carrying out its initiatives. A recent initiative carried out through the NBSSI was the GHS 600 million COVID-19 stimulus package made available to over 200,000 businesses (Adams, 2020).

Despite the government's efforts, factors constraining the ability for SMEs in Ghana to scale efficiently continue to persist. These factors include lack of access to appropriate technology, lack of management skills and training, and, most importantly, lack of access to finance (Abor & Quartey, 2010). Access to finance is regarded as the most crucial element to the survival and scaling of SMEs. SMEs are unable to attain the financing needed to continue running and expanding their operations. Entrepreneurs often point to a lack of funds as the immediate reason

for the failure of their businesses, even when the more fundamental reason may lie elsewhere (Abor & Quartey, 2010).

1.1.2 Debt Financing

Most SMEs in Ghana are formed as sole proprietorships, with the owners being solely responsible for their firms' success and failure. With this, the financing requirements needed for the growth of the business lie exclusively on the owners or entrepreneurs. These financial requirements, for many owners, are often too huge to bear, given that many SMEs form part of the informal sector. Owners of these enterprises are unable to put together enough capital to maintain business operations, even with the support of contributions and loans from family and friends. Traditionally, the next destination for owners will be banks; however, SMEs are perceived as high risk with a high probability of defaults; thus, they are charged very high interest rates by banks. Also, since SMEs do not have enough assets to put up as collateral, they ineligible to access loans from banks.

This phenomenon has led to a financing gap in the SME Industry. The creation of this financing gap and the increase in demand for capital and financial services - particularly in the informal sector - led to the rise of microfinance institutions on the African continent (Quaye et al., 2014). Microfinance institutions have succeeded in providing financial products and services in the form of microloans, savings accounts, micro-leasing services, micro-insurance services, and money transfer services to assist impoverished business owners in growing or establishing their businesses. (Quaye et al., 2014). A study conducted by Quaye, Abrokwah, Sarbah, and Osei (2014), asserted that many SMEs in Ghana attribute their success to microfinance institutions. Out of the 200 respondents interviewed by the researcher, 78.5% agreed that the operations of MFIs

had a positive impact on their businesses, while 11.5% disagreed (Quaye et al., 2014). This goes to show the extent to which microfinance institutions have improved access to credit for SMEs.

1.1.3 The Potential of Private Equity

Despite the immense contribution of microfinance institutions to the SME sector, there remains a considerable financing gap. Filling this gap will see SMEs scale their operations to serve larger markets and become the cornerstone of employment creation and economic growth. A potent source of financing to propel the growth of SMEs is private equity (PE). Private equity is a growth-oriented source of finance that ensures that entrepreneurs have the capital available to take on long-term investments that establish profitable business models and create innovative solutions to consumer needs. Short-term financing instruments, such as bank loans and microcredit facilities, are not suitable for taking on long-term investments that sustain innovative programs and achieve consistent long-term growth.

Although it is considered a growing industry in Africa, the private equity industry has been in existence for quite some time. The industry began to see a lot of activity and vibrancy in recent years, mainly due to the influx of European investors and fund managers looking to diversify their portfolios while capitalizing on exciting opportunities outside European and North American markets (Babarinde, 2012). Many investors have also realized greater returns on their investments in emerging markets than developed markets, making Africa an attractive market (Babarinde, 2012). The influx of investors into the African private equity market is evidence of the increase in supply in the industry.

1.2 Problem Statement

Equity financing in Africa remains relatively dormant despite its potency to propel the growth of SMEs in Africa and the availability of funds. This dormancy can be attributed to the complexity of raising equity and some features of private equity financing.

With private equity financing, the investor provides capital to the entrepreneur for an ownership stake. Private equity investments typically occur in three (3) phases. There is the investment selection stage, the managing and monitoring stage, and the investment exit stage (Sbarba et al., 2020). The investment phase is where private equity firms screen potential firms to select a firm they would like to invest in. After the investment phase, private equity firms enter the managing and monitoring phase. During the managing and monitoring phase, private equity firms often actively engage in the firm's management to safeguard their investments and ensure that their portfolio firm is efficiently run and is growing at a favorable rate (Sbarba et al., 2020). After successfully managing and growing their portfolio firm, private equity firms exit from their investment in the portfolio firm either through an IPO, a merger, or an acquisition. Considering the investment process of private equity firms, it is evident that private equity investors offer financial resources and also take steps to ensure the business's survival and growth (Davila et al., 2003).

The management and monitoring phase is undoubtedly the most crucial stage in the investment process for private equity firms. To successfully navigate the management and monitoring stage and ensure that the portfolio firm is growing efficiently, private equity firms adopt management control mechanisms to manage their relationship with their portfolio firm (Sbarba et al., 2020). These management control mechanisms include taking a seat on the portfolio

firm's board of directors, engaging in the hiring process, and actively managing the firm's operations. Private equity firms take a seat on the portfolio company's board of directors to ensure that they are involved in critical decisions taken by the firm's management. Since private equity professionals have experience in funding and growing businesses, they can develop strategies to put their portfolio firms on a path of sustainable growth and profitability. In addition to being actively involved in the firm's management, PE firms leverage their reputation and performance in hiring experienced professionals to manage various facets of their portfolio firms. In doing so, the firm's activities are managed by experienced professionals. Lastly, private equity firms may also directly involve themselves in the operations of the company. In doing so, the portfolio firm can develop a sustainable and profitable business model. These management control mechanisms instituted by private equity firms increase the odds of the portfolio firm's growth and the certainty of a return on investment for the private equity firm (Sbarba et al., 2020).

Given that Ghanaian SMEs are run as sole proprietorships and family businesses, there is a concentration of ownership within SMEs. Furthermore, SMEs tend to have a less pronounced separation of ownership and management than larger firms as the owners of the SMEs may double as the managers of the firm (Abor & Biekpe, 2005). With this ownership concentration, SMEs may be unwilling to subscribe to private equity capital as it dilutes their ownership power. Furthermore, management control mechanisms instituted by private equity firms and the active management style of private equity investors may limit the control entrepreneurs have over their operations. The introduction of these management control mechanisms forces entrepreneurs to share their decision-making power with equity investors. The risk of disputes is high as a divergence of views concerning the firm's operations may lead to disputes. These disputes that

may arise take away valuable time meant to improve the firm's operations and, in extreme cases, lead to lawsuits and the firm's failure. There must be a level of trust between equity investors and entrepreneurs to avoid conflicts and ensure an alignment of interests between both parties. Entrepreneurs must be confident in the ability of the private equity firm to provide resources and expertise to help them grow their firm. In turn, private equity investors must not take advantage of them and act according to the terms and conditions of the investment. Moreover, entrepreneurs must be willing to give off a part of their control to private equity investors to enable private equity investors to institute management control mechanisms that benefit the firm.

Studies assessing the impact of private equity investors and the improvements in SME operations show a positive relationship between the two. One such study conducted by Cirillo et al. (2019) revealed that when private equity (PE) investors also held shares in a business, there was a positive correlation with research and development. Furthermore, the study revealed that capital from local banks did not have a significant effect on research and development. This positive correlation between the involvement of equity investors and the increase in research and development establishes that private equity firms foster innovation in their portfolio firms. Given the vast potential of private equity to drive the growth of SMEs, it is imperative that the factors that affect the attitude and the willingness of entrepreneurs to take on private equity must be assessed.

The overarching aim of this paper is to investigate the impact of management control mechanisms on the willingness of SMEs to subscribe to private equity financing.

1.3 Research Questions

Is there a link between management control mechanisms and the attitude of SMEs toward equity financing?

1.4 Research Objectives

- To determine whether SMEs are open to management control mechanisms instituted by private equity investors.
- To understand whether management control mechanisms affect SME willingness to accept private equity capital.

1.5 Significance of Study

With the huge role SMEs play in the economic development of Ghana and the potency of private equity capital to efficiently scale SMEs, the relationship between two parties must be studied. This study will help investors understand the willingness of Ghanaian SMEs to accept private equity, considering the management control mechanisms likely to be instituted. This will help private equity investors understand the role these mechanisms play in the willingness of Ghanaian SMEs to accept private equity capital and allow them to position themselves to attract viable SMEs. This study will also contribute to the literature on financing motivations SMEs in Ghana concerning private equity.

1.6 Scope of Study

The study will focus on SMEs in the capital city of Ghana. Responses for this study will be acquired from 100 SMEs through questionnaires. The respondents will answer questions

ranging from their confidence in private equity firms, their willingness to accept private equity, and their openness to private equity firms' management control mechanisms.

1.7 Organization of Study

There are five chapters in this study. The first chapter presents an introduction to the research, provides the background of the study, introduces the research questions, research objectives, and the significance of the study. The second chapter presents the theoretical and empirical studies regarding the topic and critiques them to find gaps in previous studies. Chapter three outlines the methodology used in this study, while chapter four analyzes the data from the response and presents the study's findings. Lastly, chapter five concludes the research and provides recommendations.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

There is no universally accepted definition of an SME, given that assessing a firm's size is subjective. Researchers use various firm characteristics as a means of classifying a firm as a large or small one. One frequently used feature in classifying the firm's size is the number of employees. The Ghana Statistical Service (GSS) considers firms with less than ten employees as small-scale enterprises. In comparison, firms with more than ten employees are identified as medium and large-sized enterprises (Abor & Quartey, 2010). Besides firm characteristics, there have been other definitions of SMEs. One such definition which accurately captures the Ghanaian situation is by Quaye et al. (2014). The researchers define SMEs "as independent businesses, whose scale of operations is less than the industry average and is managed by an owner or a few part-owners" (Quaye et al., 2014 p.341). With this, it is evident that SMEs in Ghana are mostly run by individuals as sole proprietorships and sometimes as partnerships. SMEs formed as partnerships often have family members as partners, leading to the formation of family businesses. These ownership structures form a concentration of ownership among a few people in the firm, and there is little separation between ownership and management (Abor & Biekpe, 2005). The firm's capital is limited to that of the owners until external capital is introduced.

If the firm decides to subscribe to private equity for an injection of capital, the private equity firm offers to buy a substantial proportion of shares in the company. When the private equity firm successfully acquires the majority of the SME's shares, it gains corporate control of the firm. The transaction is known as a corporate control transaction. Upon completing the transaction, there is an increase in the number of shareholders in the SME and a dilution of the founders' ownership stake.

This chapter will narrow in on the theoretical and empirical framework regarding SMEs' capital structure and financing preference, the management control mechanisms often instituted by private equity firms, the impact of corporate control transactions, performance, and corporate governance SME performance after the injection of private equity into the firm.

2.2 Financing Preference of SMEs

The Pecking Order Theory (POT), derived by Myers and Majluf (1984), is a primary theory that explains the financing preferences for firms. The POT asserts that "under conditions of asymmetric information, entrepreneurs prefer finance sources for their business in an order that minimalizes interference and ownership dilution" (Cressy & Olofsson, 1997, p. 87). This hypothesis implies that firms will generally prefer financing sources that will not affect their current ownership structure and limit external influences. The most preferred financing sources are internal financing sources, such as retained earnings and trade debt, after which external sources such as loans and equity are preferred.

2.3 Capital Structure of SMEs

Many researchers have coined up many theories to determine the capital structure of SMEs. Many researchers consider various firm-level characteristics such as age, firm size, sales, and profits in determining SMEs' capital structure. This section presents the theoretical and empirical frameworks regarding how firm age, firm size, and the entrepreneur's lifestyle affect the capital structure of firms.

2.3.1 Firm Age and Capital Structure

Despite the order of financing preference desired by entrepreneurs, the POT establishes that SMEs cannot rely on their retained earnings as they may not be earning adequate profits (Burgstaller & Wagner, 2015). With this, SMEs rely a lot more on external debt, particularly loans, in funding their business operations. On the other hand, older reduce their focus on external funding as they have increased profits and a robust profit retention strategy (Burgstaller & Wagner, 2015). Concerning firm age and its impact on the capital structure, the POT theory asserts that younger firms utilize a lot more external capital; however, as SMEs grow and begin to earn more profits, they reduce their reliance on external capital.

A supporting theory is also propelled by researchers Berger and Udell (1998), who examine the capital structure of SMEs. According to Berger and Udell (1998), startups and early-stage firms are more likely to seek external private equity investors. This phenomenon is primarily because early-stage SMEs and startups may not have adequate internal capital from retained earnings to keep their operations running Agyei et al. (2020). As SMEs continue to grow, they begin relying more on internal sources as they would have built sustainable reserves of internal capital from their increasing retained profits (Berger & Udell 1998).

Empirical evidence to support this theory is seen in the study by Agyei et al. (2020), which looks at how the Pecking Theory and Trade-Off Theory play out in the Ghanaian economy. The researchers show that age is negatively correlated to external financing. As the firm grows older, the preference for debt reduces, and retained earnings are more relied on as the firm has built sustainable reserves of retained earnings. (Agyei et al.,2020)

2.3.2 Firm Size and Capital Structure

Considering the implication of firm size on the capital structure of firms, researchers Karadeniz et al. (2011) asserted that a firm's size impacts its capital structure and financing preferences. The study conducted by Karadeniz et al. (2011) revealed a statistically significant relationship between firm size and common stock issue as well as firm size and preference for external financing. The study conducted by the researchers showed revealed that as firms become companies become larger, they tend to prefer equity and debt capital.

2.3.3 Lifestyle and Capital Structure

Furthermore, Cressy and Olofsson (1997) identified SMEs' low growth motivation as another reason for SMEs' low subscription to external sources of financing, specifically equity financing. According to Cressy and Olofsson (1997), SME owners are lifestyle-oriented entrepreneurs who are not strategic, growth-oriented, and dynamic. With this, SME owners grow their business to a scale that sustains their lifestyles and do not seek to grow their businesses further. The scale to which many owners grow their businesses is known as the minimum efficiency scale. The minimum efficiency scale is the minimum level of sales required for survival in an industry (Cressy & Olofsson, 1997). At the minimum efficiency scale, SMEs earn a profit while remaining liquid and solvent. Due to the immense risks involved in going past the minimum efficiency scale, SME owners prefer to stay at the minimum efficiency scale.

2.4 Corporate Control

Jensen and Ruback (1983) define corporate control as the authority and the degree of oversight an individual or an institution has over managing a firm's resources. Resources include physical assets as well as intellectual property and human capital. Corporate control transactions

occur when another firm or an investor captures the majority of shares in a company. These transactions are a common phenomenon in the world of business, and they usually occur in the form of mergers and acquisitions (M&As), leveraged buyouts (LBOs), hostile and friendly takeovers (Jarrell *et al.*, 1988).

2.4.1 Gains from corporate control

Corporate Control transactions are generally viewed as beneficial to the acquiring or bidding company. The acquiring company's gains are more recognizable and discussed as the transaction affords them a new source of revenue, an increase in resources, and an increase in market share (Easterbrook & Fischel, 1982). There are also substantial gains for the target SMEs acquired in the transaction. Jensen (1986) suggests that the gains for the target firm occur due to the strategies introduced by new owners that ensure the efficient management of the firm's assets and the allocation of these assets to more productive uses. Many researchers have examined the theory to assess its validity.

Hoskisson *et al*. (2002) examined the relationship between institutional ownership and corporate innovation strategies. The study by Hoskisson et al. (2002) revealed that the firm's ownership profiles significantly impacted the firm's innovation strategies. The authors established that after a corporate transaction, there is a change in the ownership profile of the target firm, particularly on the board of directors, to represent the current ownership structure. This change in ownership profile results in the presence of internal directors with equity (directors representing the interests of internal owners) and external directors with equity (directors representing the external owners). Findings from the research by Hoskisson *et al*. (2002) showed that internal

directors with equity in the firm focused on internal innovation, while external directors with equity emphasized and focused on external innovation.

Further research done by George *et al*. (2005) analyzed the relationship between SMEs' ownership structures and their willingness to take risks and expand into international markets. The study revealed that internal owners are inclined to focus on the firm's internal capacity without giving much thought to foreign expansion strategies. The researchers assert that expansion into international markets gives the firm access to new customers and enables them to learn innovation strategies from global markets (George et al., 2005). These gains may be questionable, as Tallman and Li (1996) argued that an expansion might improve firm performance in the short term but lead to a decline in the long run. Findings from the analysis conducted by George *et al*. (2005) revealed that institutional investors' ownership is positively correlated with the firm's willingness to take risks and expand overseas. Furthermore, their findings revealed that the involvement of venture capitalists as owners had a more substantial influence on a firm's willingness to take risks and expand.

Brunninge *et al*. (2007) also hypothesized that the introduction of new shareholders in the firm after a corporate transaction is essential since it fosters strategic decision-making. The authors assert that in firms with a concentration of ownership, the firm owners tend to be risk-averse. They decide to be risk-averse as they will be significantly affected when the company faces challenges (Brunninge *et al*., 2007). This risk aversion inhibits innovation as management is often reluctant to make strategic decisions to improve the firm's operations. SME owners tend to avoid strategic decisions such as product innovation and expansion into international markets because these decisions involve a high level of risk. SMEs prefer to commit to the strategies they founded their

firm with (Brunninge *et al*., 2007). Analysis conducted by Brunninge *et al*. (2007), which covered 2,455 Swedish firms, also showed that closely held firms, i.e., firms with high levels of ownership concentration, exhibit minor strategic changes. The introduction of external directors who actively oversee the firm's operations was positively correlated to an increase in strategic change. To ensure gains from corporate control. Private equity firms adopt mechanisms to ensure that there are gains from their corporate control transactions.

2.4.2 Management Control Mechanisms

According to (Metrick & Yasuda, 2021), private equity firms take control of a business venture for a short amount of time only to exit their investment to make a profit. To ensure that they can make a return on investment in the future, the private equity firm establishes various measures in the target firm. These measures are known as management control mechanisms, and they help the private equity firm regulate the running of the portfolio firm (Sbarba et al., 2020). The management control mechanisms include providing strategy to the target firm, ensuring board representation, engaging in human resource issues, and matchmaking (Metrick & Yasuda, 2021).

The key mechanism adopted by private equity firms for monitoring their target firms is board representation. After the private equity company acquires a controlling stake in the target firm, the private equity firm usually takes a seat on the target firm's board. This gives the private equity firm the power to monitor and influence the corporate activities of the firm (Metrick & Yasuda, 2021). However, some private equity firms may adopt a relaxed approach to their board involvement and settle as board observers with no voting rights to influence the firm's activities (Metrick & Yasuda, 2021).

Furthermore, private equity firms make a considerable effort to engage in the human resource issues in their target firms. With this management control mechanism, the private equity company replaces all unproductive managers and leverages their reputation to recruit experienced and productive executives (Metrick & Yasuda, 2021).

With regards to strategy, private equity firms double down as advisors to the management team. The private equity firm, which is usually versed in a particular industry, provides its knowledge and expertise to the target firm's management to help the firm navigate its sector (Metrick & Yasuda, 2021). The provision of strategy helps the management of the target firm better understand the industry and realize opportunities to make profits.

Lastly, with matchmaking, private equity firms leverage their connections and reputations to develop new partnerships for their target firm. New partnerships often come in the form of strategic alliances between suppliers and other companies (Metrick & Yasuda, 2021). Matchmaking allows the firm to build strategic alliances with players in its industry to increase its profit-making ability.

2.4.3 Performance of Private Equity Portfolio Companies

Since the birth of private equity firms in 1980, there have been debates concerning the impact of private equity capital on portfolio firms. Pro private equity advocates argue that private equity capital in a business leads to the firm's expansion and growth. They believe that private equity investors conduct some value-generating activities that lead to their portfolio companies' long-term growth. These value-generating activities include the fostering of entrepreneurship and idea generation, the provision of strategic market insights, resources, and personnel, as well as the reduction of agency costs in the firms (Jensen, 1986; Wright *et al.*, 2001; Achleitner *et al.*, 2008)

Opposers of this view believe that private equity firms only seek to transfer value from existing owners at the expense of the firm's sustainable long-term development (Battistin *et al.*, 2017). Researcher Kaplan (1989), who is of the opposing view, asserts that private equity firms seek value at the detriment of their portfolio companies as private equity firms make drastic decisions when dealing with their portfolio firms. These decisions, he argues, could impair the long-term growth of these firms. He stated that PE firms undertake serious downsizing activities in leveraged-buyout transactions to create value for themselves at the expense of the firm's growth (Kaplan, 1989). Downsizing activities such as cutting the firm's level of investments and selling the firm's assets helps PE firms to increase their portfolio firms' profitability in the short run, ultimately leading to their gain (Kaplan, 1989).

In taking a closer look at the effect of private equity capital in SMEs, researchers Cirillo *et al*. (2019) examined the impact of the involvement of private equity (PE) and banks on research and development (R&D) investment in Italian family-owned SMEs. The study first established a negative relationship between family ownership in a firm and the level of R&D investments. This goes on to further establish the fact that family-run SMEs remain reluctant to adopt innovative strategies. The study's goal was to determine whether the involvement of banks or private equity firms could moderate or reverse the effects of this negative relationship. Findings from the study revealed that banks' involvement did not affect the level of R&D investments in family-run SMEs (Cirillo *et al*., 2019). However, the involvement of private equity firms reversed the negative relationship between family ownership and R&D investment, leading to an increase in the firm's R&D efforts (Cirillo *et al*., 2019).

Researchers Baah-Peprah and Serwaah (2017) also studied the impact of private equity capital on firms in emerging markets. The study conducted covered 30 Ghanaian firms listed on the Ghana Stock Exchange and 23 unlisted firms backed by private equity. The findings from the research showed that PE firms have a higher return on equity than listed firms. Also, they established that PE firms that involve the founders of the target firms in management are highly efficient and profitable. Another finding was that large board size negatively influences financial performance, while small board sizes positively influence financial performance.

2.5 Agency Theory and Corporate Governance

The Agency theory refers to the relationship between a principal and its agent. It is a theory that is commonly used to explain the relationship between shareholders and business executives. Renowned economist Adam Smith (1937), in his book "The Wealth of Nations," observed that directors of companies who managed the money of their masters (shareholders) did not exercise the same caution and diligence in managing the money as the masters themselves would have. The directors consider small matters that will not benefit their masters and are quick to spend the money (Smith & Garnier, 1838, p. 311). There is a potential for conflicts to arise between the agent and the principal as both parties seek to maximize their respective benefits (Stiglitz, 1974; Grossman & Hart, 1983).

Kaplan and Strömberg (2004) state that agency problems are the major source of tension between Private Equity (PE) investors and entrepreneurs. Once a private equity firm invests in an SME, the entrepreneurs become the agents while the investors are the principals. The agents do not always act in the investor's best interest, which gives rise to tensions between the two parties. These tensions are due to the firm's separation of ownership and control (Fama & Jensen, 1983).

These tensions and problems give rise to costs known as the agency costs (Shapiro, 2005). According to Jensen and Meckling (1976), these costs can be grouped into the monitoring expenditures by the principal, the bonding expenditures by the agent, and residual loss.

2.5.1 Mitigating the Agency Problem

Private equity firms use their management control mechanisms as a means of mitigating agency problems that may arise. Researchers, Baah-Peprah and Serwaah (2017) establish that private equity firms in Ghana often restructure their portfolios companies' boards to establish corporate governance mechanisms that align the interest of the entrepreneurs to that of the private equity firms.

Moreover, according to Wruck (2008), private equity firms provide effective board oversight, which reunites the corporate risk-bearing and governance functions that are separated when companies go public (p 12). He argues that the effective board oversight provided by PE firms helps to reduce the separation of ownership, and this helps to establish a strong level of corporate governance in the firm (Wruck, 2008, p 12).

Empirical research conducted by Battistin *et al*. (2017) in assessing the effects of private equity capital showed that private equity firms significantly impact the firm's board composition and governance structure. The researchers established that private equity firms modify the board composition of their portfolio firms and improve the portfolio firm’s operational efficiency (Battistin *et al*.,2017). However, Their findings show that in firms where private equity firms hold a majority stake, there is a decrease in the number local of local directors and an increase in the number of foreign directors (Battistin *et al*.,2017). According to Battistin *et al*. (2017), the introduction of foreign directors is necessary as strong social ties and connections between

executives or directors lead to poor firm performance. With this, the researchers assert that restructuring efforts must be aimed at loosening ties between local board members by removing ineffective board members and introducing new board members. However, there should be a cap on the number of members in a board to ensure effective decision-making (Battistin *et al*.,2017).

2.5.2 Attitude of SMEs toward Private Equity Investments

Although much research has revealed that Private Equity investments foster the target firm's growth and profitability, little research has been done to assess SMEs' willingness to subscribe to Private Equity. Most SMEs might make a more qualitative assessment of private equity firms without considering much of the quantitative benefits of subscribing to private equity. Since the profitability firm also hinges on the SMEs' growth potential, private equity firms must attract SMEs with huge growth potentials.

Dowling *et al*. (2019) studied the relationship between trust and SME attitudes toward equity financing across Europe. The researchers used social capital, which is split into interpersonal and institutional trust, as their metric for trust. Institutional trust in this context refers to the confidence in a country’s law system and governance institutions (Mathews and Stokes, 2013), while interpersonal trust refers to individuals' general disposition to trust others in a society (Paxton, 2002). The researchers, Dowling *et al*. (2019), asserted that SMEs are likely to subscribe to private equity financing in countries with strong institutional structures. This is because SMEs will be confident that they can enter contracts with private equity firms and be protected by some of the state's laws and institutions.

The research conducted by Dowling *et al*. (2019) included 19,905 SMEs in 26 European countries. Findings from the study showed that firms generally feel confident talking to equity

capital providers, but they also have a low preference for equity. Moreover, the level of interpersonal and institutional trust was a significant factor in influencing the SME's confidence in private equity providers. The study seems to suggest that in countries where there is a reasonable amount of trust among individuals and confidence in the institutions and laws of the state, there will be a large number of SMEs subscribing to capital from private equity investments.

2.6 Summary of Literature

The literature on the financing structure on SMEs points out that there is an order of financing preferences for SMEs. However, SMEs are unable to pursue their desired financing preferences as some firm characteristics impact their capital structure. Firm age and firm size are two firm characteristics that impact the capital structure of firms. With firm age, the literature points to the fact as a firm grows older, it tends to reduce its reliance on external financing while tapping into its profit reserves. Considering the impact of firm size on the capital structure, the literature asserts that an increase in size ultimately leads to an increase in the firm's reliance on external finances. Literature on corporate control largely points to the fact that both firms in the transaction gain significantly. For the bidding firm, there is an increase in assets and an added source of revenue. For the target firm, there is an introduction of new strategies and experienced executives who are essential in the growth of the firm.

The literature also shows that private equity firms establish some management control mechanisms to ensure gains from their corporate control transaction. These mechanisms often involve providing strategy to the target firm, ensuring board representation, engaging in human resource issues, and matchmaking. These mechanisms ultimately safeguard the private equity firm's investment and promote the growth of the portfolio company. Empirical studies regarding

the impact of private equity on firms are largely positive, showing that the management control mechanisms instituted by private equity firms do play a role in the portfolio firm's profitability. This is evidence of the potency of the management control mechanisms in helping the private equity firms to efficiently grow the firms they invest in and steer them towards profitability.

The literature on the agency theory points out that there are possible tensions that could arise in a private equity transaction. This is mainly due to the separation of ownership from the management of the firm. The empirical results show that the adoption of management control mechanisms is key in solving the agency problem and reducing agency costs.

Despite the positive gains firms stand to obtain from subscribing to private equity, there is little research on the attitude of the firms and the willingness of firms to subscribe to private equity. Research on the impact of trust and SME attitude towards private equity shows that SMEs consider both institutional trust and interpersonal trust when subscribing to private equity investments. This indicates that the government has a role in creating strong laws and institutions to increase private equity investments. Private equity firms must also show that they are trustworthy to attract SMEs with potent business ideas.

Notwithstanding the importance of introducing management control mechanisms, it is crucial to investigate SMEs' willingness to give up their control to private equity firms as some owners may want to have full control over thier business. It will also be relevant to find whether firms prefer to give off a minority or majority stake to private equity investment. This study will also investigate SME's current sentiment towards private equity and explore how corporate control influences SME subscription to private equity.

CORPORATE CONTROL AND SME ATTITUDE TOWARD PRIVATE EQUITY FINANCING

Following the stead of researchers Dowling et al. (2019), this study will analyze the openness of SMEs to private equity capital considering the management control mechanism likely to be initiated by private equity firms.

CHAPTER 3: METHODOLOGY

3.1 Overview

This paper seeks to investigate the link between corporate control and the attitude of SMEs toward equity financing. In other words, this study will determine whether management control mechanisms, likely to be instituted by private equity firms, play a role in the willingness of Ghanaian SMEs to accept capital from private equity firms. This chapter discusses the research design, sampling techniques, data collection techniques, data analysis procedures, data reliability considerations, and validity considerations.

3.2 Research Design

The research design is considered the blueprint of the proposed research containing all the components that ensure that the research problem is addressed coherently (Akhtar & Inaam, 2016). The research design creates a path by providing a framework for collecting, measuring, and analyzing data collated in the study. This study employed a mixture of explanatory and descriptive methods of analysis. The explanatory methods of analysis enable the researcher to identify the extent to which independent variables affect and influence the dependent variable. In contrast, descriptive methods of analysis enable the researcher to adequately describe the sample, summarize key information about the sample, and show patterns in the data (Maxwell, 2012).

3.3 Sampling and Data Collection Techniques

There are two main types of data, namely, primary data and secondary data. Primary data is gathered directly from the researcher, whereas secondary data is collated from existing sources. The data used in this study is primary data as the data was obtained directly from the sample through a survey. The data was obtained from SMEs in the Greater Accra Region as the region is

considered one of the nation's vital economic centers. A sample size of 100 SMEs was chosen for this study through a simple random sample. Utilizing the simple random sample technique ensured that the sample was selected in an unbiased manner and was representative of the general population. Questionnaires were distributed physically and digitally via social media as part of the data collection process. A copy of the questionnaire used in the survey is attached in Appendix 1.

Participants for this study were chosen using the National Board for Small-Scale Industries (NBSSI) definition for SMEs. The NBSSI classifies a business as micro, small and medium enterprises based on the number of employees and value of investment capital. This classification of SMEs by the NBSSI is shown in the table below. For this study, the number of employees was the key metric in identifying and selecting participants.

Table 1: NBSSI Definition of SMEs

Business Enterprise	Workforce	Investment Capital
Micro	1-5	Up to $10,000
Small	6-29	Up to $100,000
Medium	30-99	Up to $1,000,000

(Source: National Board for Small-Scale Industries)

3.4 Methods of Analysis

The data collected from the survey was largely quantitative; thus, a quantitative approach was adopted in the analysis for this study. A quantitative approach to analyzing data allows for testing on measurable numerical data (Jupp, 2011).

3.4.1 Descriptive analysis

A descriptive analysis was first conducted to give more information about the sample and find patterns in the data. In conducting the descriptive analysis, contingency tables and descriptive statistics were used. The contingency tables were used in assessing the relationships and interrelationships between variables, while the descriptive analysis provided summary statistics that give more information about the sample.

3.4.2 Regression Analysis

In identifying the extent to which independent variables affect and influence the dependent variable, a logistic regression was used in this study. The logistic regression analysis is a statistical technique to evaluate the relationship between various predictor variables (either categorical or continuous) and binary outcomes. Furthermore, the logistic regression predicts the probability of the dependent variable considering the various the independent variables.

3.5 Regression Model

In conducting a logistic regression, it is crucial to ensure that the data meets all the model's underlying assumptions, as violations of the model’s assumptions affect the estimation of parameters and their interpretation. A logistic model does not require a linear relationship between dependent and independent variables. Also, a logistic model neither the homoscedasticity of data nor the normal distribution of residuals is needed. Despite these exceptions, the model requires that the dependent variable be binary and the independent variables are independent of each other. Lastly, there must be little or no multicollinearity between the variables. This paper ensured that the underlying assumptions and conditions needed to conduct a logistic regression were met for the analysis.

3.5.1 Regression Equation

Research papers in this area of study have examined the potential of private equity to transform SMEs and have introduced compelling arguments on the necessity for private equity investments in SMEs based on their findings. However, the literature suggests that SMEs may consider other factors other than financial success before subscribing to private equity. Research by Dowling *et al*. (2019) examined trust's role in influencing an SME's decision to subscribe to private equity. The study conducted by Dowling *et al*. (2019) used a logistic regression where the dependent variable was a categorical variable and the predictor variables, which included quantitative and categorical variables. The study revealed that trust played a role in SME willingness to subscribe to private equity. Following in the stead of Dowling *et al*. (2019), a logistic regression will also be used to determine the relationship between control and SME willingness to take on Private Equity. Below is the regression model for this study.

$$EquityAcc_i = f(Age_i + Revenue_i + Employees_i + In.Hire_i + In.\ Operations_i + CONF_i + GOBJ_i) + \epsilon_i$$

3.5.2 Description of Variables

This section presents the variables used in the regression analysis and the justification for using these variables in the study.

Dependent Variable

The dependent viable was labeled “Equity Acceptance (EquityAcc).” This dependent variable sought to understand the preference for private equity among business owners. Researchers Dowling *et al*. (2019) used a similar dependent variable in determining the preference for equity amongst European SMEs. Responses in the study conducted by Dowling *et al*. (2019)

were treated as dummy variables with positive responses recorded as 1's and negative responses recorded as 0's. Transforming variables into dummy variables allowed researchers to create a binary dependent variable, which allowed them further determine the odds of an SME subscribing to equity capital considering the respective dependent variables using the logistic regression. In this study, the dependent variable was derived from responses to the question.

Will you be willing to on taking capital from a private equity investor or a venture capitalist?

Positive responses were coded as 1, with negative responses coded as 0. Using this dummy coding technique transformed the variable into a dependent binary variable.

Explanatory variables

Future growth strategy

Considering the evidence presented in the literature review, a critical conceptual framework in understanding SMEs' financing preference is the Pecking Order Hypothesis (POH). The theory asserts that equity financing is the least preferred financing source of SMEs partly because equity is expensive and partly because SMEs are unmotivated to subscribe to capital from private equity providers (Cressy & Olofsson, 1997). The lack of motivation for SMEs to subscribe to private equity stems from SME owners' desire to grow their businesses to a scale that sustains their lifestyles. With this, many SMEs are looking to remain at the Minimum Efficiency Scale (MES), where the firm can earn profit while staying liquid and solvent. The assertion of the POH theory that SMEs might not be seeking external capital due to their desire to remain at the MES may not hold as some businesses may be looking to expand. With this, the survey sought to

understand SMEs' growth objectives and how they affected their desire for private equity. This viable was labeled “Growth Objective (GOBJ)” and was derived from the survey question:

Regarding your long-term growth strategy, where do you see your firm in the next five(5) to seven(7) years?

The respondents were given three (3) options: A medium-sized family firm, a large domestic firm with a nationwide presence, and a multinational firm. These responses were also treated as dummy variables. Responses indicating a desire to scale to a medium-sized business firm were coded as 0. In contrast, responses indicating a desire to scale to a large domestic firm and a multinational firm were coded as 1 and 2, respectively.

Confidence in Private Equity

The confidence of SMEs in private equity firms was assessed and included as an explanatory variable. Considering the study conducted by Dowling et al. (2019), the researchers revealed that SMEs were generally confident in the ability of private equity investors to scale their business. Despite the evidence that 51% of SMEs are confident in private equity firms, only 8% are willing to subscribe to private equity capital Dowling et al. (2019). Similarly, this study investigated the effect of confidence in Private Equity firms on SME willingness to accept private equity. The variable was labeled “Confidence (CONF)” Respondents were asked ;

Do you feel confident that you can scale your business efficiently by taking capital from an equity investor/venture capital?

These responses were treated as dummy variables with positive responses coded as 1 with negative responses coded as 0.

Management Control Mechanisms

Considering the literature on the involvement of private equity in SME operation after the injection of capital, it is evident that private equity firms – particularly venture capitalists – involve themselves in SME operations as a way of safeguarding their investments (Metrick & Yasuda, 2021). The study conducted by researchers Bloom et al. (2015) linked private equity ownership with improved management and operational practices. Similarly, research by Yeboah et al. (2015) discovered that the effect of private equity ownership on improved management practices adopted by SMEs is positive. Despite this, there is still no indication of the openness of SMEs to management control mechanisms and the impact of these mechanisms on the willingness of SMEs to accept equity capital. The involvement of private equity firms in the operations of SMEs occurs in different forms; however, this paper analyzed two areas of involvement. Firstly, the private equity firm's involvement in the SME's operations and the private equity firm's involvement in the SMEs' hiring process.

In assessing the level of involvement SMEs were comfortable with, the variables labeled "In.Operations" and "In.Hire" were adopted. These variables stemmed from the questions;

Will you allow an investor to make decisions regarding the operations of your business?
Will you be willing to hire people recommended by an investor in your business?

Positive responses were coded as 1, with negative responses coded as 0.

Control Variables

The control variables in this study were the ages of the SMEs, the number of employees in the firm, and the SMEs' annual revenues. These metrics were chosen as control variables considering research on the effects of firm size and age on firms' capital structures. With firm age, the literature indicates that firms tend to move away from external sources of financing as they grow (Berger and

Udell, 1998). In contrast, the literature indicates that as firms increase in size, they tend to seek external sources of finance (Karadeniz et al., (2011). The ages, number of employees and the annual revenues of the firms were used as indicators of the firm's age and size.

3.5.3 Data Analysis

Microsoft Excel and R are the statistical software used in analyzing the data. The data was polished in Excel, while the statistical analysis of the data was conducted in R. The analysis conducted included testing the model's underlying assumptions, graphing relevant variables, and running the regression model.

3.5.4 Hypothesis

This research seeks to determine if management control mechanisms instituted by Private Equity firms impact SMEs' willingness to subscribe to private equity capital.

Null Hypothesis

H_0: There is no relationship between the desire for private equity and management control mechanisms initiated by Private Equity firms.

Alternate Hypothesis

H_1: There is a relationship between the desire for private equity and the level of management control mechanisms.

3.5.5 Validity and Reliability of Regression Analysis

In carrying out this research, validity and reliability measures must be considered to ensure the data's accuracy. The data used in the study was collated using a simple random sample which confirmed that the data is unbiased. The unbiased nature of the data obtained increases the validity of the statistical

findings. Moreover, the use of the appropriate statistical and econometric models in analyzing the data increases the study's reliability.

To further test the model's reliability, the regression model used in this study will be compared to an intercept-only model. An ANOVA test will then be conducted with the two models to assess the significance of the variables used in this study in predicting the dependent variable.

3.6 Limitation of Study

The limitation of this study is the sample size used. Although a sample size of 100 is a considerable number, a larger sample size may better picture the relationship between the chosen variables.

CHAPTER 4: RESULTS

4.1 Overview

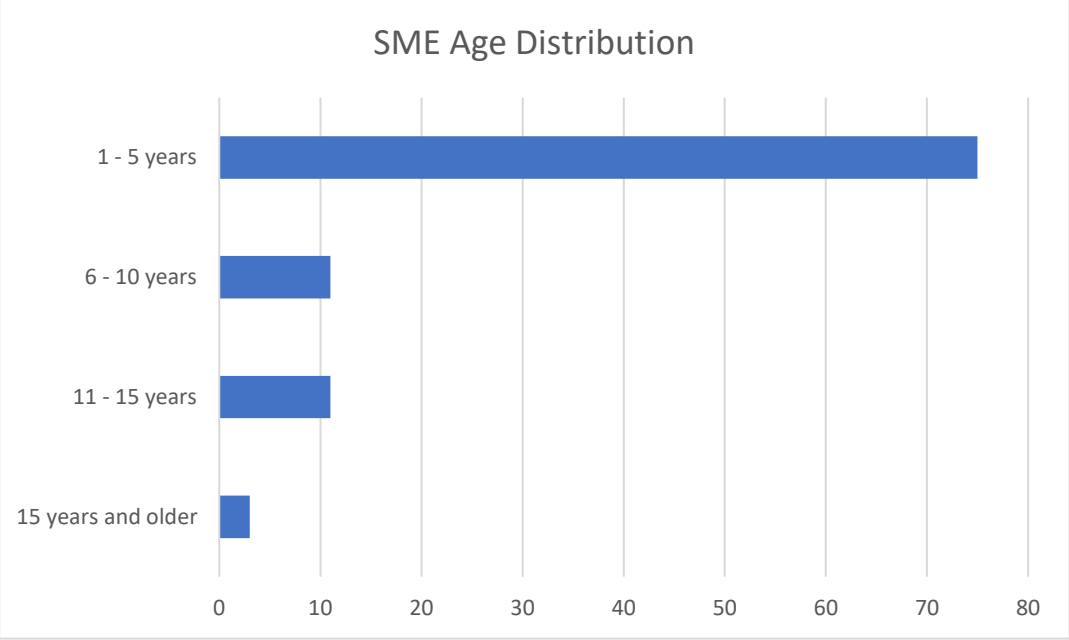
This chapter critically analyzes and presents the results of the analysis relationship between the chosen variables. In this chapter, descriptive statistics, pie charts, and contingency tables are presented used to analyze variables and explore the relationships between variables. Furthermore, this chapter validates the use of the logistic regression model and presents the regression analysis results.

4.2 Descriptive analysis

4.2.1 Distribution of Respondents

Before analyzing the relationships between various variables, this chapter will explore some selected variables to describe the sample size better. Of the 100 participants, 75% were SMEs between the ages of 1-5 years, 11% were between the ages of 6-10, and 11-15 years. 3% were 16 years and older. Figure 1 shows the age distribution of the respondents in the sample.

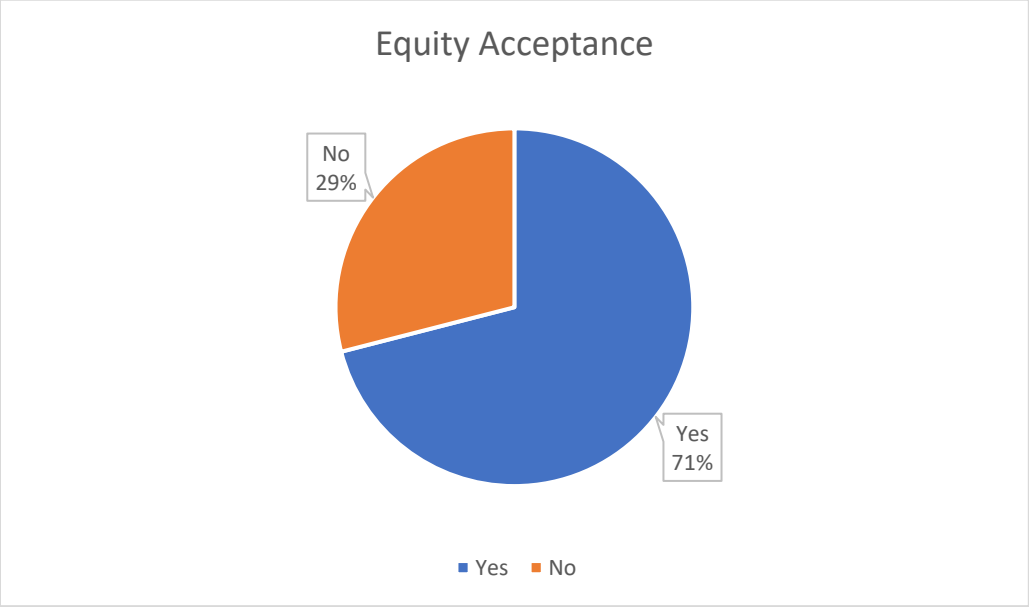
Figure 1: Graph showing the age distribution in the sample



4.2.2 Equity Acceptance

In assessing the willingness to accept equity capital, the data collected from the sample revealed that 70% of SMEs were willing to subscribe to private equity capital while 29% were unwilling to subscribe to equity capital. Figure 2 shows the responses of the respondents. The results from the data fall in line with the theory propelled by Berger and Udell (1998), which states that startups and early-stage firms are more likely to seek external private equity investors. This majority preference for equity capital may be due to the fact that respondents cannot fund their operations with internal capital and are seeking external sources of capital.

Figure 2: Pie Chart showing the willingness of SMEs to subscribe to Private Equity capital

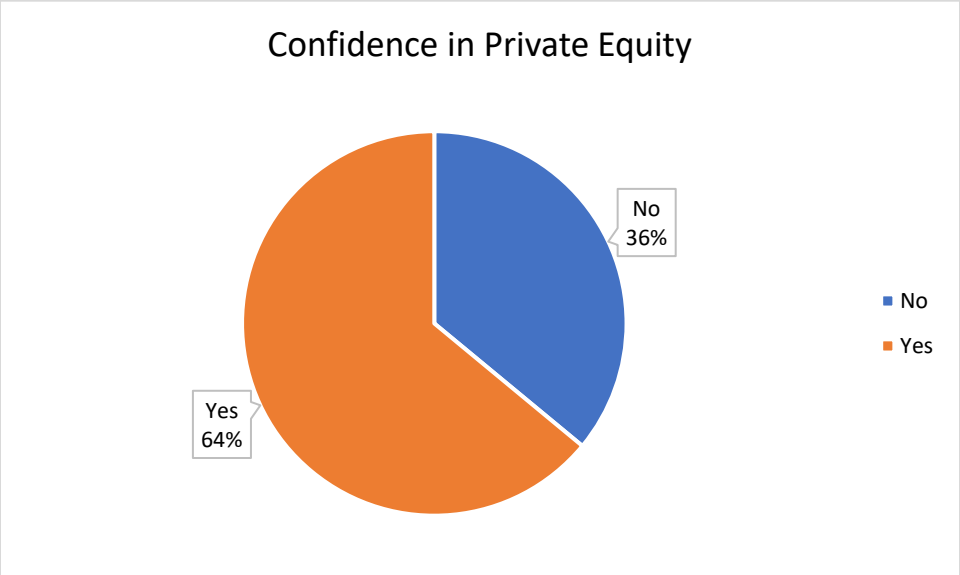


4.2.3 Confidence in Private Equity

Moreover, the results from the data collection revealed that 64% of business owners interviewed are confident in private equity firms' ability to help them attain their growth targets.

In contrast, 36% of business owners do not have confidence in private equity firms. Figure 3 below shows a pie chart with the responses of the SMEs.

Figure 3: Pie Chart showing the confidence of SMEs in Private Equity firms

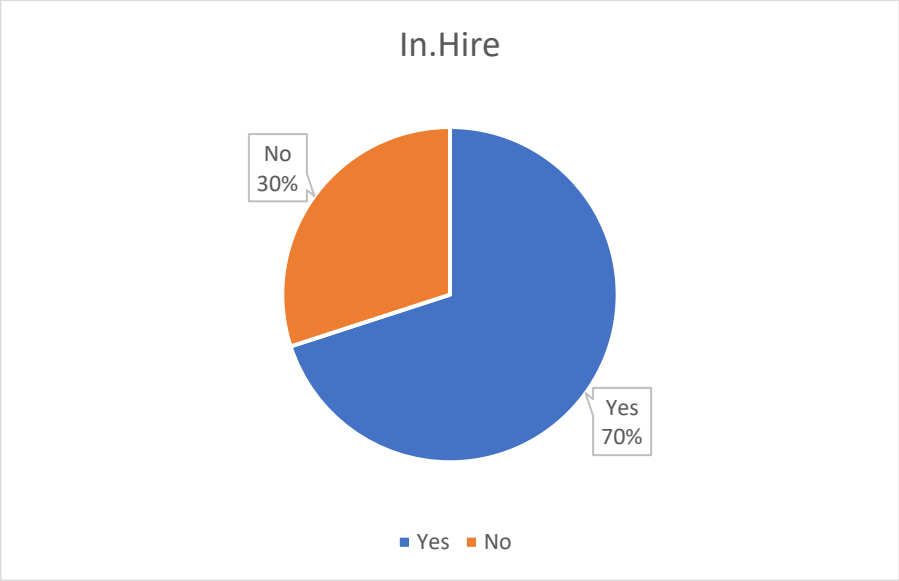


4.2.4 Management Control Mechanisms

Hiring

The responses to the variables covering the openness of SMEs to management control mechanisms revealed that SMEs were more open to the involvement of private equity firms in their hiring process. 70% of the respondents were open to the involvement of private equity investors in their hiring process, while 30% to the involvement of private equity firms in their operations. Figure 4 below shows the distribution of responses concerning the involvement of private equity firms in their hiring process.

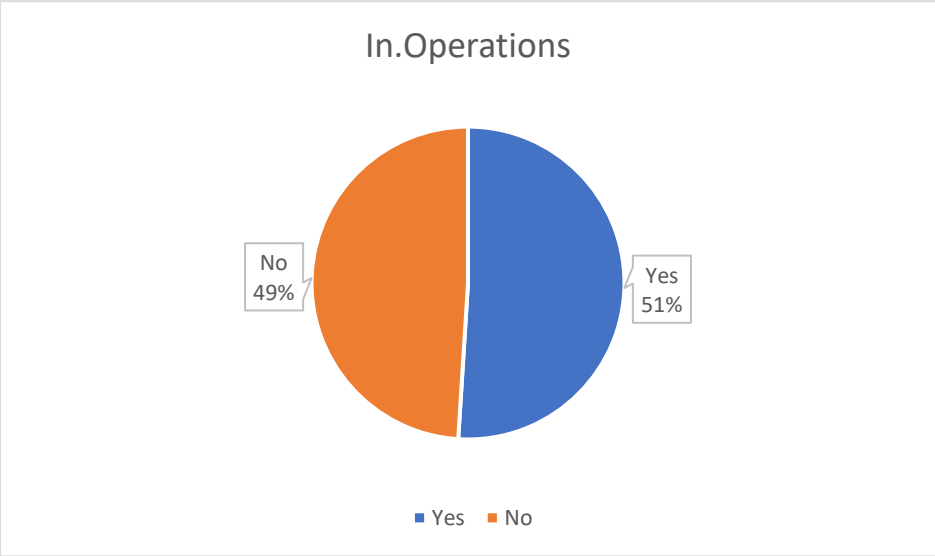
Figure 4: Pie Chart showing the openness of SMEs to the involvement of Private Equity firms in their hiring process



Operations

Regarding the openness of SMEs to the involvement of private equity firms in their operations, there was more resistance from the respondents. 49% of the respondents were not open to the involvement of private equity firms in their operations. In contrast, 51% of the respondents were willing to involve private equity investors in their operations. Figure 5 below shows the distribution of responses concerning the involvement of private equity firms in the processes of SMEs.

Figure 5: Pie Chart showing the openness of SMEs to the involvement of Private Equity firms in their hiring process.



4.2.5 Descriptive Statistics

In summarizing the key statistics of the sample, a descriptive analysis was used. From the descriptive analysis, the mean age of business in the sample is four years. The mode age of two years indicates that most SMEs in the sample were two years old. Looking at the number of employees, the average number of employees in the sample is six employees; however, the mode indicates that many businesses have only one employee. Looking at the revenues for the companies, the average revenue for the sample was GHS 55,260.00. Also, the sample's standard deviation is GHS 71,436.00, showing a large variation in the sample's revenues. Table 2 below shows the descriptive statistics for the data collected from the sample. The descriptive analysis gives more information about the population by presenting various statistical measures.

Table 2: Descriptive Statistics of Independence Variables

	Age	*Employees*	*Revenue*
Mean	4.44	6.49	55260
Standard Error	0.440458898	0.954044554	7143.600937
Median	2.5	2	25000
Mode	2	1	15000
Standard Deviation	4.404588975	9.540445535	71436.00937
Sample Variance	19.40040404	91.02010101	5103103434
Kurtosis	1.344767636	3.027644055	11.1016747
Skewness	1.577267462	2.013698785	3.003449273
Range	17	39	443000
Minimum	1	1	7000
Maximum	18	40	450000
Sum	444	649	5526000
Count	100	100	100

4.2.6 Contingency Tables.

In further exploring relationships and patterns in the data, contingency tables were adopted. Contingency tables are a form of frequency distribution tables used in analyzing the relationships in several categorical variables.

Age and Growth Objectives

Firstly, the relationship between age and the growth ambitions of SMEs was explored. The ages of the SMEs were categorized to form four categories. These categories were firms between the ages of 1 – 5 years, firms between the ages of 6 – 10 years, firms between the ages of 11 – 15, and firms between the ages of 16 – 20 years, respectively. The categorized ages were then cross-tabulated with the desired growth targets of the firm. Table 3 below shows the conditional distribution of the data with respect to the firm's ages and desired growth targets.

Table 3: Contingency table showing the desired growth targets according to their ages.

	Growth Targets			
Age	Large Domestic	Multinational	Family Firm	
(1-5years)	56.0%	17.3%	26.7%	100.0%
(6-10years)	63.6%	0.0%	36.4%	100.0%
(11-15 years)	72.7%	18.2%	9.1%	100.0%
(16-20 years)	0.0%	33.3%	66.7%	100.0%

The analysis revealed that 56% of SMEs between the ages of 1-5 years desire to grow into large domestic firms. 63.6% of SMEs between the ages of 6-10 and 72.7% of SMEs aged 11-15 years also desire to grow into large domestic firms. However, no SME between the ages of 16- desired to grow into a large domestic firm. Furthermore, 17.3% of SMEs aged 1-5 years desire to grow into multinationals, along with 18.2% of SMEs aged 11-15 years and 33% of SMEs aged 16-20 years. No SMEs between the ages of 6-10 years desired to grow into a multinational firm. Lastly, the distribution table reveals that 26.7% of SMEs aged 1-5 years desire to grow into medium-sized family firms, along with 36.4% of SMEs aged 6-10 years, 9.1% of SMEs aged 11-15 years, and 66.7% of SMEs aged 16-20 years.

The contingency table in Table 3 above shows a relationship between firm age and the growth target of the firm. The contingency table reveals that a large proportion of younger SMEs – firms fifteen years and below – are eager to scale into large domestic firms. Older SMEs who were aged sixteen years and above desire to grow into multinational firms and medium-sized family firms. The results from the contingency table contradict the literature on the Pecking Order Theory, which asserts that SMEs desire to grow their firms to a minimum efficient scale where the firm makes sales below the industry average and not any further. In contrast, the contingency table

shows that many SMEs seek to scale their operations past the minimum level of sales required for survival in an industry to the national industry average and even further.

Age and Equity Acceptance

The relationship between age and the willingness of an SME to accept equity was also assessed using a contingency table. The categorized age variable was cross-tabulated with the responses of respondents on their willingness to accept equity capital. The results of the analysis are presented in Table 4 below.

Table 4: Contingency table showing the willingness of SMEs to accept equity capital considering their ages.

Age	Yes	No	Total
(1-5years)	68%	32%	100%
(6-10years)	82%	18%	100%
(11-15 years)	91%	9%	100%
(16-20 years)	33%	67%	100%
Totals	71%	29%	100%

The conditional table above reveals that 68% of SMEs between the ages of 1-5 years desire are willing to subscribe to private equity while 38% are not. Furthermore, 82% of SMEs between the ages of 6-10 are also willing to take on private equity capital, while 18% are not. With SMEs between the ages of 11-15 years, 91% of businesses are willing to subscribe to private equity capital while 9% are not. Lastly, 33% of SMEs between the ages of 16-20 years are eager to subscribe to private equity capital, while 67% are not. The conditional distribution from the contingency table reveals that private equity capital is highly desired by SMEs between the ages of 6-15 years. Private equity is also desired by SMEs between 1-5 years but on a much lower scale.

Older SMEs between the ages of 16-20 years appear to be risk-averse as 67% of respondents were not willing to subscribe to private equity.

The results obtained from the contingency table affirm the Pecking Order Theory, propelled by earlier researchers Myers and Majluf (1984) and theories by Burgstaller and Wagner (2015). The results in Table 4 show that the desire for private equity capital initially rises with growing SMEs but sharply falls with firms above 16 years of age. This illustrates that SMEs generally tend to adopt external sources of finance as they do not have enough profit reserves to fund their internal operations. However, as they grow, they begin to rely more on their profit retention reserves and less on external financing.

4.3 Regression Model

This section presents the process through which the regression was conducted. Furthermore, this section presents the regression model results and validates the efficiency of the regression model in conducting the analysis.

4.3.1 Testing Assumptions of the model

As stated in the methodology, all assumptions regarding the logistic regression model must be tested to ensure the accuracy of the model. With the dependent variable already established as a binary variable**,** this section will test the other assumptions of the model. These assumptions include the independence of the chosen variables and the absence of multicollinearity between the variables.

Test for independence in categorical variables.

The logistic model regression assumes that the independent variables be independent of each other. In testing this assumption, a Chi-Square test will be used to test for independence in qualitative variables, while the scatterplot will be used to test for independence in quantitative variables. For the chi-square tests, the null hypothesis and the alternative hypothesis is;

Null Hypothesis: There is no association between the two pairs of variables.

Alternative hypothesis: There is an association between the two pairs of variables.

The p-values from the Chi-Square test for independence between the variables are shown in Table 4 below. A significance level of 0.05 was used in the various tests. From Table 5 below, it is evident that all the variables, except the Growth Objective (GOBJ) variable, are independent of each other. The test for independence between the GOBJ and other variables produces p-values above the significant level of 0.05. With this, there is not enough evidence to reject the null hypothesis, and thus, the GOBJ variable does not meet the requirement of independence for the regression model. Given the failure to meet the requirement of independence, the GOBJ variable will not be used in the regression model.

Table 5: Results from the Chi-Square test of Independence

	CONF	*Equity Acc*	*In.Operations*	*In.Hire*	*GOBJ*
CONF	0				
Equity Acc	0.0002151	0			
In.Operations	0.004251	6.45E-07	0		
In.Hire	1.04E-05	7.48E-10	0.00299	0	
GOBJ	0.5289	0.7847	0.1226	0.5289	0

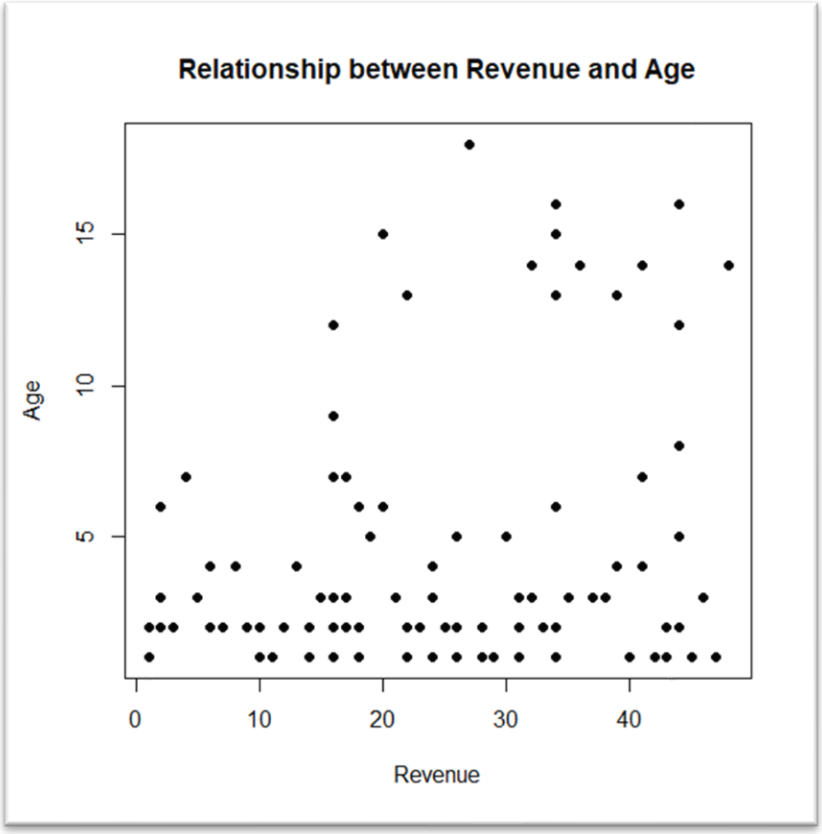
Test for Independence in Quantitative variables

Considering the assumption of the logistic model, which requires that the independent variables used in the model be independent of each other, a scatterplot was used in testing for independence in the quantitative variables. The tests sought to discover any positive or negative relationships between the quantitative variables.

Revenue and Age

Plotting the age of SMEs against the revenue of the SMEs revealed no relationship between the two variables. With no evidence of a relationship between the variables, the variables are independent. Figure 6 presents the scatter plot with the two variables

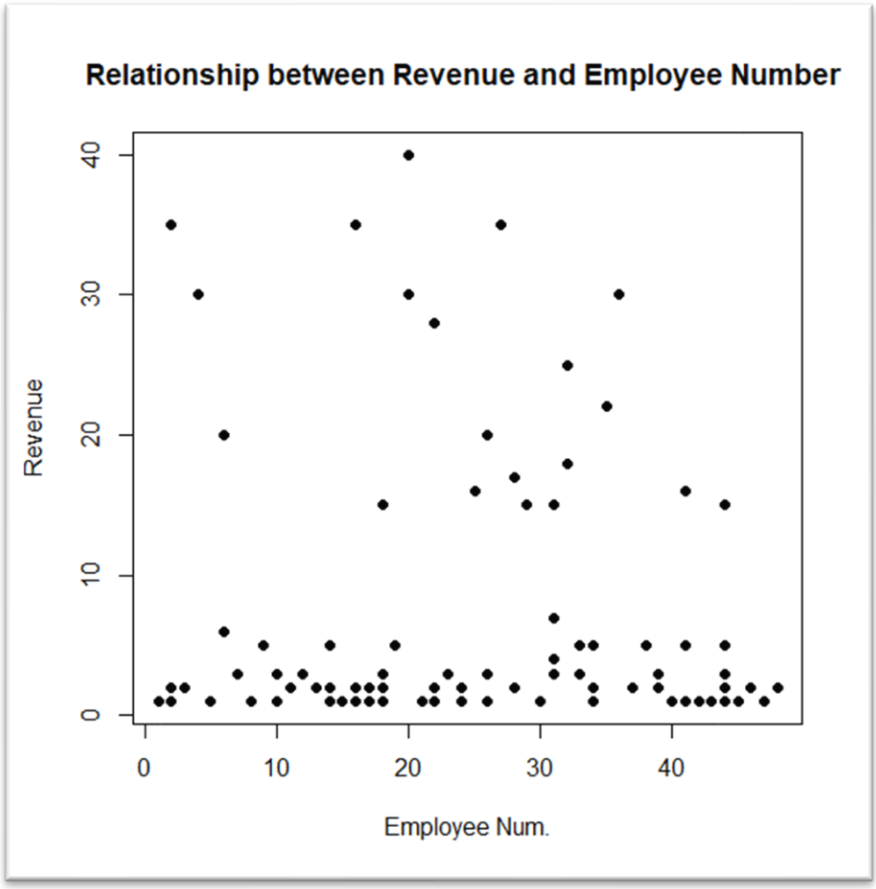
Figure 6: Scatterplot showing the relationship between revenue and age



Revenue and Number of Employees

Similarly, plotting the number of employees against the revenues of the respondents also revealed no significant relationship. With no evidence of a relationship between the variables, and thus, the variables are independent. Figure 7 presents the scatter plot with the two variables.

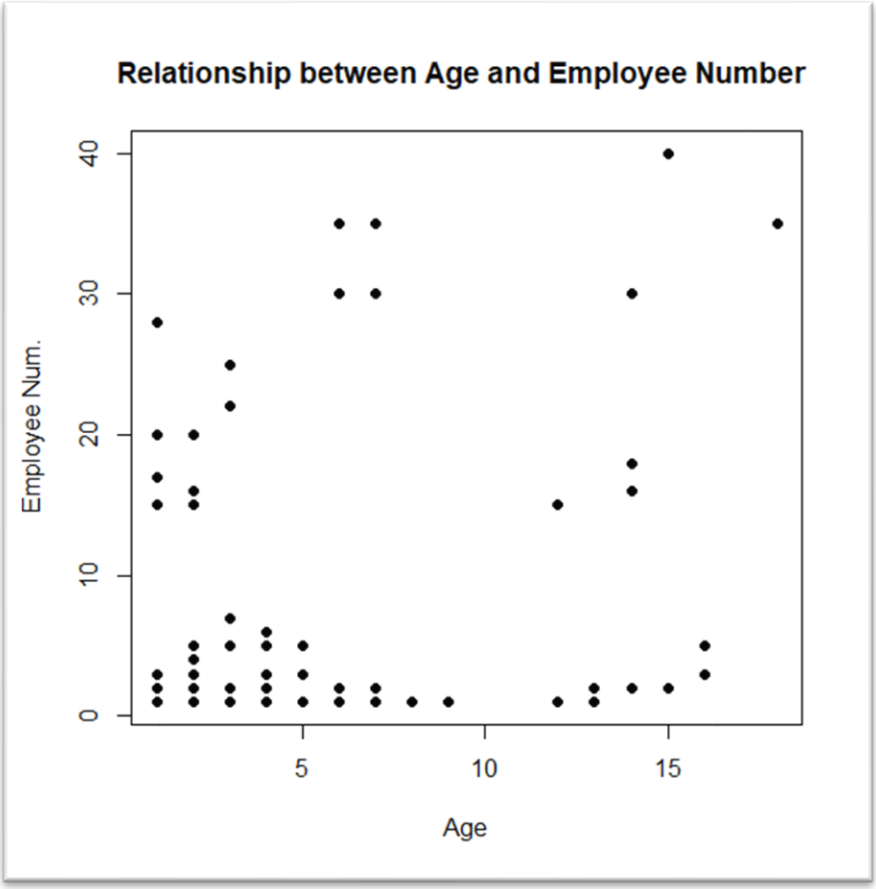
Figure 7: Scatterplot showing the relationship between revenue and number of employees



Age and number of employees

Lastly, the scatterplot between age and the number of employees also shows no significant relationship between the variables. With no evidence of a relationship between the variables, and thus, the variables are independent. Figure 8 presents the scatter plot with the two variables.

Figure 8: Scatterplot showing the relationship between age and number of employees



Multicollinearity Test

A successful logistic regression model requires that there must be little or no multicollinearity between the variables. With this, there should not be a perfect correlation between the independent variables. Multicollinearity of variables must be tested as the presence of multicollinearity distorts the data results and prevents an accurate statistical inference of the data. To be able to test this, a correlation matrix is used. The results from the correlation matrix is shown in Table 5. Assessing the results presented in Table 6 reveals little multicollinearity between variables as the correlation between the various variables is less than 0.9.

Table 6: Results from the Multi-collinearity Test

	Age	*Employees*	*Revenue*	*CONF*	*EquityAcc*	*In.Operations*	*In.Hire*	*GOBJ*
Age	1							
Employees	0.316440332	1						
Revenue	0.469135459	0.53790421	1					
CONF	0.065791815	0.005793973	0.022968	1				
EquityAcc	0.084279676	0.026025027	0.040784	0.393011	1			
In.Operations	-0.002008383	-0.096915676	-0.02822	0.306728	0.519759581	1		
In.Hire	0.105560935	-0.078849368	0.019894	0.463713	0.639607902	0.318661858	1	
GOBJ	-0.004094481	0.057671085	-0.05292	-0.12762	0.027613449	-0.043012579	-0.1114	1

4.3.2 Regression Output

The regression output is shown in Table 5 below. From the regression output below the equation below was formed

Logit (EquityAcc) = − 5.19620 − 0.04123Age + 0.07442Employees + 3. 06937In.Operations − 0.34288CONF − 4.66318 In.Hire + 0.09107Revenue

Table 7: Regression Output in R

Dependent Variable : Equity Acceptance					
	Coefficient	Odds Ratio	Std.Error	Z Value	P-Value
(Intercept)	-5.1962	0.005537591	1.57337	-3.303	0.000958
Age	-0.04123	0.9596037	0.10326	-0.399	0.689651
Employees	0.07442	1.07726	0.04473	1.664	0.096152
In.Operations	3.06937	21.5283	0.91775	3.344	0.000825
CONF	-0.34288	0.709265	0.83577	-0.41	0.681623
In.Hire	4.66318	105.973	1.18839	3.924	8.71E-05
Revenue	0.09107	1.095351	0.04195	2.171	0.029917

The regression output presented in Table 7 above reveals that the variables representing the management control mechanisms likely to be instituted by the private equity firm statistically significant in determining the SME's desire for private equity capital. With this, there is enough evidence to reject the null hypothesis, which states that; there is no relationship between the willingness to accept private equity capital and management control mechanisms initiated by private equity firms.

4.4 Discussion of Results

From the regression output, there is evidence that there is a negative relationship between firm age and the willingness to accept private equity. This is seen in the negative coefficient of age. The results from the regression model imply that the older the firm gets, the less likely the firm will accept private equity. This result largely confirms the findings in the literature, which asserts that as a firm grows, it begins to build its profit retention ability and relies less on external financing.

From the regression output, the coefficient of Employees and Revenue are 0.07442 and 0.09107, respectively. This indicates a positive relationship with the dependent variable such that

the higher the number of employees and the revenue of the SME, the higher the likelihood for an SME to subscribe to Private Equity. Using employees number and revenue as an indicator of the SME's size, the findings from the regression model largely conform with the literature. The literature reveals that there is a positive relationship between firm size and preference for external financing as external financing can be easily obtained by larger mature firms (Karadeniz et al., 2011). With this, larger firms are more likely to pursue funding from private equity investors.

The variables In.Hire and In.Operations, which represent SME openness of SMEs to management control mechanisms initiated by private equity firms, are both statistically significant with a positive relationship with the dependent variable. This relationship indicates that an SME owner who is open to involving a private equity firm in its hiring process and its operations is likely to subscribe to capital from a private equity firm. This positive relationship is evidence that management control mechanisms usually adopted by private equity firms play a role in the willingness of SMEs to subscribe to private equity. In other words, SMEs may make their decision to subscribe to private equity based on some of the management control mechanisms likely to be instituted by the private equity firm.

4.4.1 Odds Ratio

The odds ratio represents the change in the likelihood of an SME accepting private equity for every unit increase in independent variables. The computation of the odds reveals that for every unit increase in age, revenue, and the number of employees, the likelihood of an SME accepting private equity increases marginally by 0.9596037, 1.095351 and 1.07726. Also, when SMEs are willing to allow private equity firm to have a hand in their operations and hiring processes, they are more likely to accept capital from private equity firms. This is evident as the odds ratios of

In.Hire and the In.Operations variables are 105.973 and 21.5283, respectively. Lastly, an SME's confidence in the potential impact of capital from private equity firms does not improve the likelihood of an SME accepting capital from a private equity firm. The likelihood of an SME accepting private equity capital rises by 0.709265 when the SME has confidence in a private equity firm.

4.5 Validity and reliability of Model

In determining the reliability of the model, the logistic regression was compared to an intercept-only model. An ANOVA test was conducted with the two models to assess the effectiveness of the variables and the model in predicting the likelihood of a Ghanaian SME in accepting private equity. Figure 9 shows the results of the ANOVA test. Assessing the results from the ANOVA test in Figure 9 shows that the model used in this study and the variables are significant in predicting the likelihood of a Ghanaian SME in accepting private equity. This is apparent with the p-value of the second model at 1.147e-12, which is below the significant level of 0.05.

Figure 9: Output in R showing the reliability of the model.

```
Analysis of Deviance Table

Model 1: EquityAcc ~ 1
Model 2: EquityAcc ~ Age + Revenue + Employees + In.Operations + In.Hire +
    CONF
  Resid. Df Resid. Dev Df Deviance  Pr(>Chi)
1        99    120.430
2        93     52.616  6   67.814 1.147e-12 ***
---
Signif. codes:  0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1
```

CHAPTER 5: CONCLUSION

5.1 Introduction

This chapter summarizes the findings, answers the research questions and addresses the objectives of the research. It offers recommendations and also provides an opportunity for future research.

5.2 Summary of findings

This study sought to understand the impact of management control mechanisms on the willingness of SMEs to subscribe to private equity financing. This study first captured the importance of SMEs to the Ghanaian economy and the potential of private equity to propel the growth of these SMEs. The literature suggests that SMEs generally have an order of preference when seeking capital; however, some firm characteristics such as firm size and firm age affect a firm's capital structure. The literature suggests that firm age has a negative relationship with external capital acquisition. This suggests that as a firm grows older, the firm reduces its reliance on external capital. However, with firm size, the literature indicates a positive relationship between firm size and external capital acquisition. This suggests that as firms tend to grow larger, they can easily acquire external financing. Literature concerning the management control mechanisms reveals that private equity firms usually provide a strategy to the target firm, ensure that they have board representation, engage in human resource issues, and conduct matchmaking activities. Moreover, literature on the performance of SMEs after the injection of private equity primarily points to the improved performances of SMEs after they have taken on private equity capital and the ability of private equity firms to mitigate issues of the agency problem when dealing with their portfolio firms. Despite the compelling empirical evidence on the success of private equity firms

after they accept private equity capital, there is still little information in the literature on the factors that may compel an SME to subscribe to private equity capital. A factor identified to compel SMEs to subscribe to private equity capital is the level of trust the SME has in the private equity firm and in the country's institutions.

Having identified a gap in the literature concerning the factors that may affect an SME's willingness to accept equity capital, this study analyzed the impact of management control mechanisms on the willingness of Ghanaian SMEs to subscribe to private equity financing. This study considered the private equity firm's involvement in the hiring process and the involvement of private firms in the operations of the SME as the key management control mechanisms.

In addressing the openness of Ghanaian SMEs to management control mechanisms, this study revealed that SMEs in Ghana are generally open to management control mechanisms. SMEs are willing to involve private equity firms more in their hiring process than in the SME's general operations. Moreover, these management control mechanisms are very statistically significant in determining the probability of the SME subscribing to private equity capital. The findings further revealed that the involvement of private equity firms in the hiring process of SMEs is more significant in determining the probability of SMEs subscribing to private equity. This establishes that the involvement of private equity firms will be a key issue during the negotiation stage between private equity firms and SMEs.

5.3 Recommendations

Given the findings from the study, it is recommended that private equity companies clearly spell out the management control techniques they are likely to implement when negotiating with

entrepreneurs. Furthermore, private equity companies must assess the extent to which the entrepreneurs are open to management control mechanisms to avoid potential conflicts when the mechanisms are introduced. Entrepreneurs, in turn, must query the private equity firms on any mechanisms intended to be used during their spell as a portfolio company and openly discuss their openness to these mechanisms.

5.4 Opportunities for Further Study

This study employed a quantitative analysis to predict the likelihood of an SME accepting private equity based on some management control mechanisms private equity firms are likely to introduce. A qualitative approach could be used to understand better other factors that may impact a Ghanaian SMEs decision to take on private equity. This will allow private equity firms to understand the factors that influence Ghanaian SMEs to subscribe to private equity.

References

Abor, J., & Biekpe, N. (2005, September). Does corporate governance affect the capital structure decisions of Ghanaian SMEs. *In Biennial Conference of the Economic Society of South Africa, Durban, South Africa, September*.

Abor, J., & Quartey, P. (2010). Issues in SME development in Ghana and South Africa. *International research journal of finance and economics*, 39(6), 215-228.

About Us – National Board for Small Scale Industries. (n.d.). Retrieved October 3, 2020, from https://nbssi.gov.gh/about-us/

Achleitner, A. K., Schraml, S., & Tappeiner, F., 2008. Private equity minority investments in large family firms: what influences the attitude of family firm owners? (No. 2008-12). CEFS working paper series.

Adams, C. N. (2020, May 19). Ghana: President Launches Gh¢600 Million COVID-19 Alleviation Programme Today. AllAfrica.Com. https://allafrica.com/stories/202005190844.html

Agyei, J., Sun, S., & Abrokwah, E. (2020). Trade-Off Theory Versus Pecking Order Theory: Ghanaian Evidence. *SAGE Open*. https://doi.org/10.1177/2158244020940987

Baah-Peprah, P., & Serwaah, P. (2017). *The impact of private equity on firms in emerging markets: evidence from Ghana*.

Babarinde, O. (2012). The Private Equity Market in Africa: Trends, Opportunities, Challenges, and Impact. *The Journal of Private Equity*, *16*(1), 56–73. JSTOR.

Battistin, E., Bortoluzzi, P., Buttignon, F., & Vedovato, M. (2017). Minority and majority private equity investments: firm performance and governance. *Journal of Management & Governance, 21*(3), 659-684.

Beck, T., Demirguc-Kunt, A., & Levine, R. (2005). SMEs, growth, and poverty: cross-country evidence. *Journal of Economic Growth, 10*(3), 199-229.

Berger, A. N., & Udell, G. F. (1998). The economics of small business finance: The roles of private equity and debt markets in the financial growth cycle. *Journal of Banking & Finance, 22*(6-8), 613-673.

Bloom, N., Sadun, R., & Van Reenen, J. (2015). Do private equity owned firms have better management practices? *American Economic Review*, *105*(5), 442–446.

Brunninge, O., Nordqvist, M., & Wiklund, J. (2007). Corporate Governance and Strategic Change in SMEs: The Effects of Ownership, Board Composition and Top Management Teams. *Small Business Economics*, *29*(3), 295–308.

Burgstaller, J., & Wagner, E. (2015). How do family ownership and founder management affect capital structure decisions and adjustment of SMEs? Evidence from a bank-based economy. *The Journal of Risk Finance*.

Chukwu, A. N., & Ohaka, J. (2017). Equity investments and firm performance in the banking industry: *Evidence from FBN holdings Nigeria plc. 5*(2), 7.

Cirillo, A., Ossorio, M., & Pennacchio, L. (2019). Family ownership and R&D investment: The moderating role of banks and private equity. *Management Decision, 57*(7), 1675–1694. https://doi.org/10.1108/MD-07-2016-0454

Cressy, R., & Olofsson, C. (1997). European SME Financing: An Overview. *Small Business Economics, 9*(2), 87–96.

Davila, A., Foster, G., & Gupta, M. (2003). Venture capital financing and the growth of startup firms. *Journal of Business Venturing, 18*(6), 689–708. https://doi.org/10.1016/S0883-9026(02)00127-1

Dowling, M., O'Gorman, C., Puncheva, P., & Vanwalleghem, D. (2019). Trust and SME attitudes towards equity financing across Europe. *Journal of World Business, 54*(6), 101003. https://doi.org/10.1016/j.jwb.2019.101003.

Easterbrook, F. H., & Fischel, D. R. (1982). Corporate Control Transactions. *The Yale Law Journal, 91*(4), 698–737. https://doi.org/10.2307/796036.

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *The Journal of law and Economics, 26*(2), 301-325.

George, G., Wiklund, J., & Zahra, S. A. (2005). Ownership and the Internationalization of Small Firms. *Journal of Management, 31*(2), 210–233. https://doi.org/10.1177/0149206304271760

Grossman, S. J., & Hart, O. D. (1983). An analysis of the principal-agent problem. *Econometrica: Journal of the Econometric Society*, 7-45.

Hoskisson, R. E., Hitt, M. A., Johnson, R. A., & Grossman, W. (2002). Conflicting Voices: The Effects of Institutional Ownership Heterogeneity and Internal Governance on Corporate Innovation Strategies. *The Academy of Management Journal, 45*(4), 697–716. https://doi.org/10.2307/3069305

Jarrell, G. A., Brickley, J. A., & Netter, J. M. (1988). The market for corporate control: The empirical evidence since 1980. *Journal of Economic perspectives, 2*(1), 49-68.

Jensen, M. C., (1986). Agency costs of free cash flow, corporate-finance, and takeovers. *American Economic Review, 76* (2), 323–29.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics, 3*(4), 305-360.

Jensen, M. C., & Ruback, R. S. (1983). The market for corporate control: The scientific evidence. *Journal of Financial economics, 11*(1-4), 5-50.

Jupp, V. (2011). Research Design. In P. Davies, *The SAGE Dictionary of Social Research Methods* (pp. 266-267). London: SAGE Publications Ltd.

Kaplan, S., 1989. The effects of management buyouts on operating performance and value. *Journal of Financial Economics, 24*, 217-254.

Kaplan, S. N., & Strömberg, P. E. (2004). Characteristics, contracts, and actions: Evidence from venture capitalist analyses. *The Journal of Finance, 59*(5), 2177-2210.

Karadeniz, E., Serkan, Y., & Iskenderoglu, O. (2011). Firm size and capital structure decisions: Evidence from Turkish lodging companies. *International Journal of Economics and Financial Issues*, *1*(1), 1.

Lee, N., H. Sameen, and M. Cowling (2015). Access to finance for innovative SMEs since the financial crisis. *Research Policy, 44* (2), 370–380.

Mathews, M., and P. Stokes (2013). The creation of trust: The interplay of rationality, institutions and exchange. *Entrepreneurship & Regional Development, 25* (9-10), 845–866.

Maxwell, J. A. (2012). The importance of qualitative research for causal explanation in education. *Qualitative Inquiry*, 18(8), 655-661.

Metrick, A., & Yasuda, A. (2021). *Venture capital and the finance of innovation*. John Wiley & Sons

Oppong, M., Owiredu, A., & Churchill, R. Q. (2014). Micro and Small Scale Enterprises Development in Ghana. *European Journal of Accounting, Auditing and Finance Research*, 84–97.

Paxton, P. (2002). Social capital and democracy: An interdependent relationship. *American Sociological Review 67* (2), 254–277

Quartey, P., Turkson, E., Abor, J. Y., & Iddrisu, A. M. (2017). Financing the growth of SMEs in Africa: What are the contraints to SME financing within ECOWAS? *Review of Development Finance*, *7*(1), 18–28. https://doi.org/10.1016/j.rdf.2017.03.001

Quaye, I., Abrokwah, E., Sarbah, A., & Osei, J. Y. (2014). Bridging the SME Financing Gap in Ghana: The Role of Microfinance Institutions. *Open Journal of Business and Management, 02*(04), 339–353. https://doi.org/10.4236/ojbm.2014.24040

Ranganathan, P., Pramesh, C. S., & Aggarwal, R. (2017). Common pitfalls in statistical analysis: logistic regression. *Perspectives in clinical research*, *8*(3), 148.

Sbarba, A. D., Giannetti, R., & Marelli, A. (2020). Private equity firms and management control: the framing of shareholder-oriented practices. Journal of Management and Governance, 1-35.

Shapiro, S. P. (2005). Agency theory. *Annual review of sociology*, 263-284.

Smith, A. (1937). *The Wealth of Nations*.

Smith, A., & Garnier, M. (1838). *An Inquiry into the Nature and Causes of the Wealth of Nations*. T. Nelson.

Stiglitz, J. E. (1974). Incentives and risk sharing in sharecropping. *The Review of Economic Studies*, *41*(2), 219-255.

Tallman, S., & Li, J. (1996). Effects of international diversity and product diversity on the performance of multinational firms. *Academy of Management journal*, *39*(1), 179-196.

UNIDO, (1999). SMEs in Africa survive against all odds. Retrieved October 3, 2020, from http://www.unido.org/doc/view?document_id=3927&language_code=en.

Wright, M., Hoskisson, R. E., Busenitz, L. W., & Dial, J., 2001. Finance and management buyouts: agency versus entrepreneurship perspectives. Venture Capital*: An International Journal of Entrepreneurial Finance, 3*(3), 239-261.

Wruck, K. H. (2008). Private equity, corporate governance, and the reinvention of the market for corporate control. *Journal of Applied Corporate Finance*, *20*(3), 8-21.

Yeboah, H. J. N., Tomenendal, M., & Dörrenbächer, C. (2014). The Effect of Private Equity Ownership on Management Practices: A Research Agenda. *Competition & Change*, *18*(2), 164–179. https://doi.org/10.1179/1024529414Z.00000000054

APPENDIX 1

Research Project

This research forms part of an Undergraduate Thesis required for the award of Bachelor of Science degree in Business Administration at Ashesi University. This study seeks to understand how corporate control influences SME subscription to private equity. Your participation in this study will give more insight into how corporate control will affect your attitude to private equity and some factors that may affect your preference for private equity. You are free to be part of this activity, and you are free to stop at any moment during the activity.

*Required

1. Which Industry does your business operate in ? *

Mark only one oval.

- ◯ Technology
- ◯ Food and Beverage Industry
- ◯ Fast Moving Consumer Goods
- ◯ Service Industry
- ◯ Manufacturing
- ◯ Fashion (Clothes/Hair)
- ◯ Entertainment
- ◯ Other: _____

2. How long has your business been in operation ? *

Mark only one oval.

- ◯ 1 - 5 years
- ◯ 6 - 10 years
- ◯ 11 - 15 years
- ◯ 15 years and older

3. How many employees does your firm currently have ? *

Mark only one oval.

- 1 - 5 Employees
- 6 - 29 Employees
- 30 - 99 Employees

4. Have you received external funding in the past year ? *

Mark only one oval.

- Yes
- No

5. What was the type of funding you received ?

Mark only one oval.

- Loan
- Grant
- Trade Debt
- Equity

6. If you have received a loan before from a bank, how difficult was it obtaining the loan ?

Mark only one oval.

	1	2	3	4	5	
Very Easy						Extremely Difficult

7. Do you feel confident that you can scale your business efficiently by taking capital from an equity investor / venture capital ? *

Mark only one oval.

- Yes
- No

8. Will you be willing to accept private equity capital in your firm? *

Mark only one oval.

- Yes
- No

9. Will you allow an investor make decisions regarding the operations of your business ? *

Mark only one oval.

- Yes
- No

10. Will be willing to hire people recommended by an investor in your business ? *

Mark only one oval.

- Yes
- No

11. With regards to your long term growth strategy where do you see your firm in the next 5 - 7 years ? *

Mark only one oval.

- Medium size family Business
- Large Domestic firm with a Nationwide Presence
- Multinational Firm