

# Master thesis: draft version

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## Assessing the performance of microcredit clients in Ghana

### The role of business operations skills



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## Executive summary

Throughout the last decade emphasis has been placed on microcredit as an effective way of empowering the poor and reducing poverty. However, there's a big discussion noticeable concerning the question whether the concept of microcredit is a blessing for the borrower itself. As no consistency in literature can be found concerning this, it cannot be denied that there is a big potential in this concept and microfinance institutions (MFI's) seem to flourish by it. Although there are many doubts concerning the role of microcredit, it is of importance to improve the performances of microcredit clients. This research contributes to this by investigating the impact of business operations skills. Urban Ghana has been chosen as the focus area of this research. Ghana has experienced high economic growth figures and has a high amount of businesses being set up. A major drawback however, is the high failure rate of these businesses, which seriously limits the economic development of the country.

Internal and external factors that affect the microcredit clients have been examined. Not only theory on microcredit has been used to provide for a solid theoretical base for data generation and analysis, but also other important aspects for an entrepreneur in developing countries have been taken care of. The role of entrepreneurship has been discussed, where its positive relation with economic growth becomes evident. Also the institutional context plays a large role. Corruption is widely present in Sub-Saharan countries and this is also the case for Ghana in particular. Together with a bad performing infrastructure, corruption is named as important drawbacks for economic growth and entrepreneurial development. Although Ghana is taking big steps in countering these effects, entrepreneurs are still largely influenced by these negative aspects of the institutional context of Ghana.

Taken the previous information into mind, it is clear that there are many external factors impacting the entrepreneur in Ghana. In contrast to these external factors, internal aspects are the focus of this research. Research to similar target groups in South Africa determined several business operations skills. These are basic skills that micro and small entrepreneurs should possess to run a business. Literature states the positive relation between business operations skills and company performance. A set of sixteen skills have been acknowledged and it was measured to which extent the microcredit clients in urban Ghana possess these skills. 102 microcredit clients of uniCredit Ghana Limited, located in Accra, have been interviewed face-to-face where they were asked to perform a self-assessment concerning their level of these skills. This information was used as independent variables. Also human capital and several situational aspects were measured. The dependent variables, measuring the company performance, were generated by using the database of uniCredit where financial data of each client is stored. With the use of this, financial ratios of the respondents were captured. This resulted in the possibility to quantitatively show differences in company performance between the microcredit clients that have been interviewed.

After the data generation, SPSS has been used to calculate the effect of the level of business operations skills on the company performance. Multiple linear regression showed several interesting results. Of the five financial ratios that were used, only the net profit margin proved to be useful. Also the asset turnover ratio showed generalizable results, but this impact was too small. Furthermore, human capital showed no significant impact on the net profit margin. Of the situational aspects however, retail as a

business sector showed a significant negative result. The most interesting information concerns the business operations skills where two of the six skills showed to have a significant impact. Creditworthiness assessment skills had a negative impact on net profit margin and planning skills had a positive one.

Several conclusions can be drawn from this information. First, not all business operations skills showed a great impact. The two skills that were stated above do have an effect and are therefore worth the investigation and / or training. The lack of significant relations can be explained by institutional factors that affect the performance of the company and can decline the effect of skills. Also several other internal aspects haven't been quantified in this research, being the difference between personal and business spending and handling unforeseen events. Furthermore, it was stated by credit officers that in factor-driven economies some basic skills can be sufficient for existence, so providing advanced systems can lead to negative results.

These findings can be used by MFI's to be more effective in their operations as well as avoiding pitfalls for their clients. As institutional context plays an important role, it can be beneficial to focus on an environment where this role is less evident. There are not only major differences between different countries, but also between regions and even within a city differences can be found. Furthermore, business sectors will show different dependencies on external influences. To avoid unnecessary losses, it seems wise to take this into account when providing credit to entrepreneurs. Human capital shouldn't be a criterion for approving credit to possible clients. No relationship was found with company performance.

Overall, it is proven that several skills do have an impact on company performance. Therefore it can be stated that it will be beneficial to focus on training these skills to the microcredit clients. However, for practical as well as theoretical implementation, an important statement should be taken into account, since this report showed the delicacy of the topic of business operations skills and entrepreneurial training. Situations will differ for each country, region and business sector and therefore this should be taken care of before starting a training program. A thorough assessment on the topics for training that is needed by the entrepreneurs will need to be performed. If this is known, a more focused training program will be possible to set-up. This inclines that a shift will need to be made by the MFI from microcredit to microfinance.

### **Opportunities for further research**

As this research has been pioneering in this field of interest, improvements to the research set-up can also be made. The lack of significant relations can be explained by the external factors impacting the businesses, but these can be limited by changing the research design. Self-assessments obviously have a subjective nature and will impact the results of the research. A focus on knowledge instead on skills will create possibilities for more objective answers and thus stronger results. The opportunity it provides for larger samples is also a positive effect of such a focus. A clearer focus on a particular business sector will also create stronger conclusions. Finally, the choice made in this research for a focus on microcredit clients provides fewer bases to generalize the conclusions upon but enabled the usage of financial ratios as indicators for company performance.

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# 1. Introduction

This chapter will discuss the motivation for the choice of the topic of research. It will also provide background information concerning Ghana and uniCredit Ghana Limited, the company where the data generation has been performed. With the use of this chapter, an understanding is created to the relevance of this research.

## 1.1 Background and selected problem

Where it is often assumed that China is the fastest growing economy in the world, Economy Watch predicts that in 2011 Ghana will be the number one growing economy with a growth of 20,146% in one year ([www.economywatch.com](http://www.economywatch.com), 10/12/2011). Much research has been provided concerning the role of entrepreneurship in economic growth where its role is claimed to be large. One example of this is the research by Gibb (1996) stating that entrepreneurship fosters job creation and economic development, but many others could also have been mentioned.



Figure 1: Characteristics of economic groups and key development focus (Kelley et al., 2011)

The Global Entrepreneurship Monitor provided a report where different aspects of entrepreneurship have been investigated in 59 different countries. This includes Ghana, which is perceived to be in the first phase of economic development, being factor-driven (Kelley et al., 2011). Figure 1 shows the three different phases of economic development, where the development of an economy changes the productivity for the better. Furthermore, the division of labor migrates across different economic sectors. Factor-driven countries are perceived to be in the first phase where manufacturing plays an important role and people are forced to create their own income (Kelley et al., 2011). Furthermore, the Global Entrepreneurship Monitor 2010 calculated several indicators of entrepreneurial attitudes by interviewing local entrepreneurs. The scores show the extent to which these entrepreneurs perceive the level of these indicators. This showed that the opportunities are perceived as being very high in Ghana. This scored a 75.7 out of 100, where the average for factor-driven countries is only 61.8 which is by far lower for the other two phases. The same relation holds for the question whether entrepreneurship is a good career choice, which scored 91.1 out of 100. Figure 2 shows the percentage of population involved in early-stage entrepreneurship and the relation to the GDP per capita. It can be seen that Ghana has the third highest Total Early-Stage Entrepreneurship Activity (TEA) (Figure 2). However, with regards to the discontinuation of business rate, Ghana scores the second highest also (25.7%) (Kelley et al., 2011). Combining these two findings tells that a lot of individuals are involved in starting up companies, but an extreme high level of failure is present also. This leaves a big opportunity for improvement.

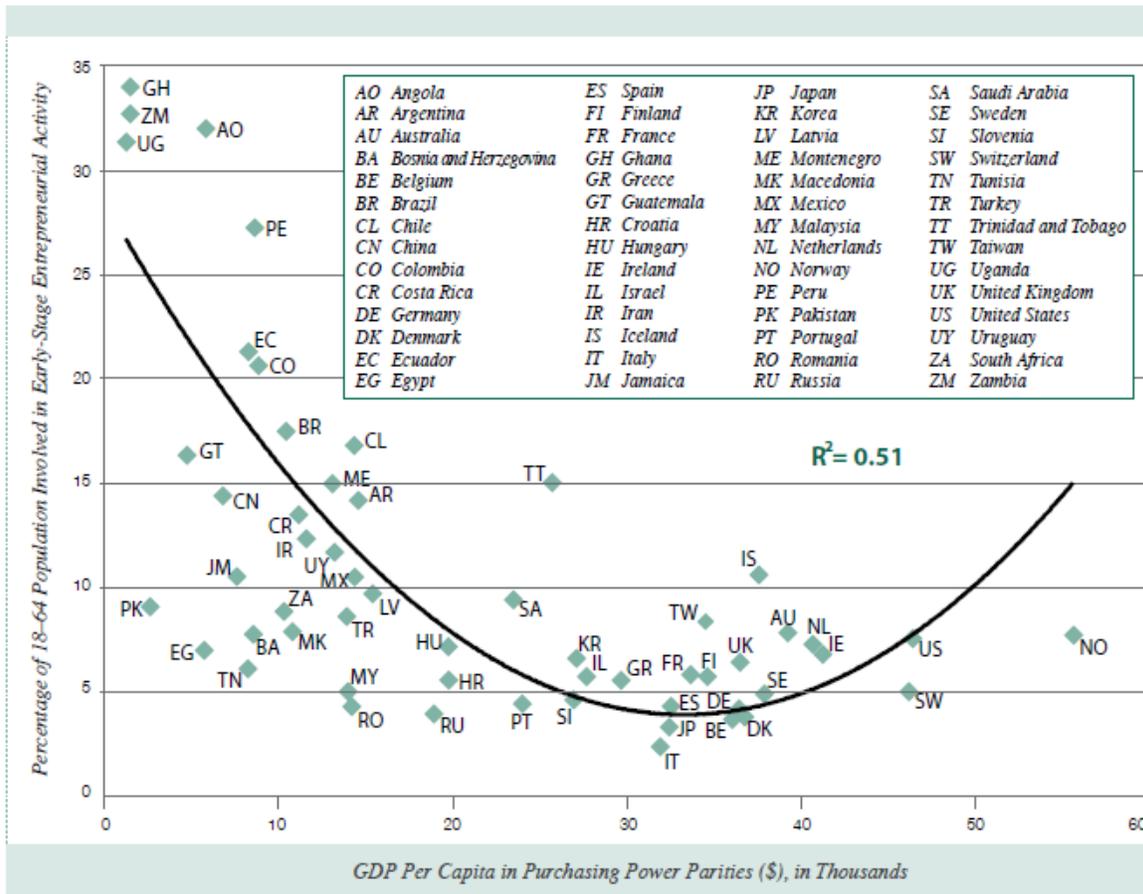
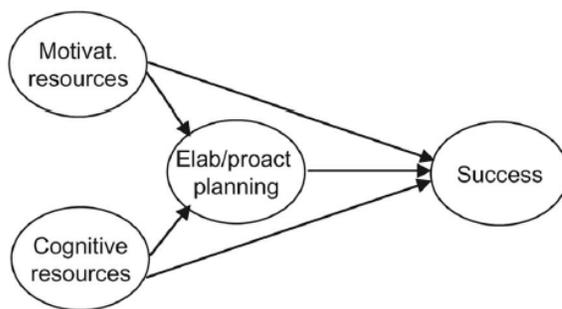


Figure 2: Population involved in Early Stage Entrepreneurial Activity worldwide (Kelley et al., 2011)

As it is acknowledged that entrepreneurship has a positive effect on the economic development of a country (Gibb, 1996), several initiatives have been performed to enhance the entrepreneurial level in developing countries. A well-known example of this is microcredit. Many definitions can be found, but for this study, the definition by Kirchgeorg and Winn will be used, being: “Microcredit refers to small loans made to low-income individuals to sustain self-employment or to start up very small businesses” (Kirchgeorg and Winn, 2006). This means that microloans will be provided for individuals that lack money, but do want to be an entrepreneur. By taking on a microloan, these individuals will be sustainably empowered to enhance their economic position. The concept of microcredit has been introduced by the Grameen Bank (Yunus, 1997) where Muhammed Yunus received the Nobel Peace Prize for this effort in 2006, highlighting the international importance of the topic.

There are several factors that limit entrepreneurial development, on macro as well as micro-level. Furthermore, these are aspects that can be influenced by the entrepreneur, but also aspects that are influenced by the entrepreneurial environment. (Okpara and Wynn, 2007; Roy and Wheeler). Roy and Wheeler (2006) investigated the situation for micro-enterprises in West Africa and describe three aspects of major influence on their performance. These are lack of market knowledge and training, limited access to capital and finally a lack of trust and cooperation. The latter one relates closely to the institutional context of a country and is therefore mainly applicable to a macro-level, so less relevant for

this research. As can be seen, microcredit covers the second one, being the access to capital. Knowledge and training however is something that can be intervened and can thus be a valuable addition to the distribution of microcredit. The importance of knowledge is also acknowledged by Frese et al. (2007) who focus more on individual abilities of the entrepreneur and state three aspects that influence success in African countries, being motivational resources, cognitive resources and planning (Figure 3). Herein cognitive resources are an important aspect. Also the Global Entrepreneurship Monitor state the negative impact that a low level of entrepreneurial knowledge has on the success of Sub-Saharan countries, stating that education and training are (together with regulation problems) the most negatively evaluated factor in their research (Kelley et al., 2011). In the case of Ghana, the emphasis on problems concerning education and training will be the most dominant, because the institutional context seems to be relatively advantageous. This is illustrated by Alonso et al. (2011) who discuss the democratic nature of Ghana and its positive environment for entrepreneurship.



*Figure 3: Relation planning and motivational and cognitive resources on success (Frese et al., 2007)*

The lack of knowledge is a problem for the entrepreneurial performance. Markman (2008) states that knowledge, skills and abilities (KSA's) are required individual-level factors that influence the success of a new venture, naming the KSA's 'entrepreneurs' competencies'. Herein, knowledge is critical to the development of skills and abilities. Markman (2008) investigated these KSA's in 'weak situations' where basic entrepreneurial barriers still exist which impact the entrepreneur. With this the factor-driven economies are meant, which is thus applicable to Ghana, and highlighted the importance of skills and defines this as "expertness which is acquired or developed through training and practice". It thus seems that the needed entrepreneurial skills need to be acquired by training or experience, which creates educational opportunities.

Indeed, skills of the entrepreneur are often seen as an important determinant of success and therefore much research has been performed concerning this issue. Szilagyi and Schweiger, 1984 define conceptual skills as "understanding the organizational picture by integrating and coordinating key company activities". Chandler and Jansen (1992) agree upon this, but talk about competencies rather than skills. Where these authors write about the situation in Western countries, the following authors focused rather on developing countries. Competencies of the founding entrepreneur are, according to Sambasivan et al. (2010), a critical success factor for a new venture. Smith and Perks (2006) and SEDA (2009) investigated the presence of entrepreneurial skills for black micro-entrepreneurs in South-Africa and the possibilities for entrepreneurial education. They describe personal, technical, business

operations and management skills. Smith and Perks (2006) found hardly any results regarding management skills which focuses more on the long term and is embedded in the character of the individual. Personal skills concern more general aspects which are less applied to the business itself but show relations to other aspects of the individuals' life. Finally technical skills apply the actual production of the product and function more as "a prerequisite to starting a business" (Smith and Perks, 2006). Therefore this research will focus on the "business operations skills" which concerns the day-to-day operation of a business, is similar to the conceptual skills of Katz (1974) and Szilagyi and Schweiger (1984) and seems to be most relevant. According to Smith and Perks (2006), training interventions are needed concerning these business operations skills and they are divided into "general business management", "record-keeping", "financial management", "interpersonal relations" and "customer relations" (Smith and Perks, 2006). Figure 4 presents a graphical overview of the narrowing down of the concept of entrepreneurial competencies as is elaborated on in this chapter.

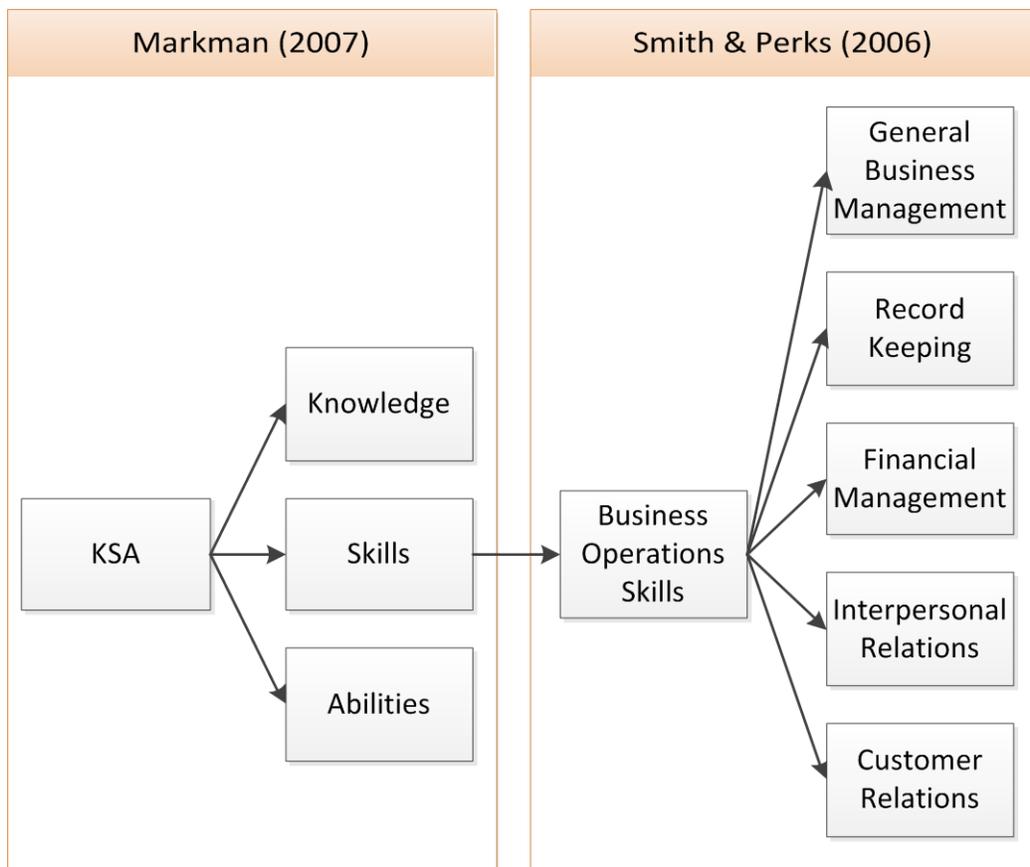


Figure 4: *Narrowing down of the research topic*

As these business operations skills of the founder are claimed to be an important factor for success for the new venture, it is of importance to determine whether these skills are actually possessed by these individuals. Only limited research focuses on this issue (Markman, 2008), while the impact of a proper developed skill level of founding entrepreneurs can be great on their entrepreneurial development. Wickham (1998; cited by Nieman, 2001) states that entrepreneurial skills training is indeed linked to the

conceptual competencies as described by Katz (1974). This proves the usability of research upon the actual lacking skills of entrepreneurs in countries such as Ghana, since the entrepreneurial training can then focus on educating the aspects that most negatively affect the success rates of new ventures.

In the case of Africa, the entrepreneurial training is still limited (Nieman, 2001). Little uniformity can be found concerning entrepreneurial education programs, but at least some aspects can be successfully taught (Henry et al., 2005), which is also acknowledged by Echtner (1995). These aspects mainly address 'the science of entrepreneurship' (Henry et al. 2005), which relates to the business operations skills. Since there are thus opportunities to provide microcredit clients with entrepreneurial skills to improve their performance, it will be worthwhile to address this issue. This is especially the case because the effect of a higher knowledge level can be great in Sub-Saharan Africa, since this is often stated as being badly present. To be able to accomplish this, the state of the business operations skill level of the founders of new ventures should be subject to investigation. This study will investigate this issue by focusing on the situation in Ghana. In line with the research of Smith and Perks (2006), the sample that has been used consists of micro-credit clients in the service-, retail- and manufacturing sector in urban areas. To be able to compare the results of this study with the ones of Smith and Perks (2006) and SEDA (2009), the choice of area of data generation has been Accra and, more specific, the Ashaiman branch of uniCredit Ghana Limited.

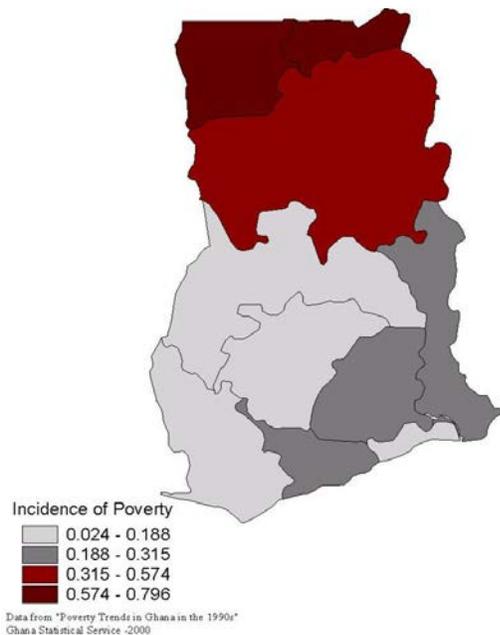
## 1.2 Ghana

Ghana is a Sub-Saharan country, of 238.5 thousand square kilometers, which is located with its coast to the Gulf of Guinea and is surrounded by Togo, Burkina Faso and Ivory Coast. In contrast to these countries, the common language is English, but other native languages are, in many parts of the country, more common ([www.ghanaweb.com](http://www.ghanaweb.com); retrieved on 12/01/2012). The total population of Ghana is estimated at 24.4 million people in 2010 (World Bank, 2010) of which 51% is located in urban areas. With a military expenditure of 0.4% of the GDP, it can be stated that there is no large investment needed in this sector. Ghana is often acknowledged as being a one of the most stable countries in Africa.

Ghana has a history as a colony of different countries, where the Netherlands and England have had the biggest influence, naming the country Gold Coast. Mainly because the availability of gold at first and slaves later on, there was a high amount of activity of colonizers from 1471 until 1957. This was the year that Gold Coast achieved their independence with Dr. Kwame Nkrumah as their leader and changed the name of the country in Ghana. Many years followed in which the country struggled economically as well as politically, with many coups which were performed (Ghanaweb; retrieved on 12/01/2012). 2001 saw the first change of president by election, being John Kufuor and later John Atta Mills, which resulted in improvements in policy and prosperity (Palmer, 2007).

Nowadays, levels of poverty have dropped to a level where 29% of the population is living below the poverty line (World Bank, 2011). Partly because of this, the life expectancy at birth is set at 57 years. However, there are big differences in poverty between the north and the south of Ghana as can be seen in Figure 5. This is for a large part due to geographical differences, where the North's location is not only less favorable for trade, but also suffers from a dry climate (Martin, 2009). Furthermore, "the three

northern regions are predominantly rural areas and lack basic social services, financial institutions, safe water, all-year roads, electricity, and telephone service” (Martin, 2009).



**Figure 5: Incidence of poverty in the different districts of Ghana (Martin, 2009)**

Economic activity can mostly be found in services (49.5%), but also agriculture (31.7%) and the industry (18.9% of which 6.9% is manufacturing) are highly represented (World Bank, 2010). The import of goods to Ghana in 2009 is stated at US \$ 9,334 million, where the export is US \$ 5,786 resulting in a negative export/import balance of US \$ 3,548 million, which can be seen in Figure 6 (World Bank, 2011). This is due to an investment climate which is difficult to cope with. According to (Bourguignon and Pleskovic, 2006) the productivity in Ghana is half as productive as China, but because of low wages, production costs are still lower. However, other problems are encountered due to difficult working systems. In a survey in Ghana, corruption was believed to have a big impact on businesses and the majority of the respondents believed that the private sector is incapable of delivering economic growth (Bourguignon and Pleskovic, 2006). The inflation rate was 14% in 2009, where the GDP saw a rise of 6.6%. This is in line with the GDP growth of the last decade, which has been calculated as being 5.6% (World Bank, 2010). The literacy rate of the population which is older than 15 years has been calculated at 66% and the average amount of years in school has been stated as being 10.5 (World Bank, 2011). Finally, the employment rate is 65% (World Bank, 2010).

### Export and import levels (US\$ mill.)

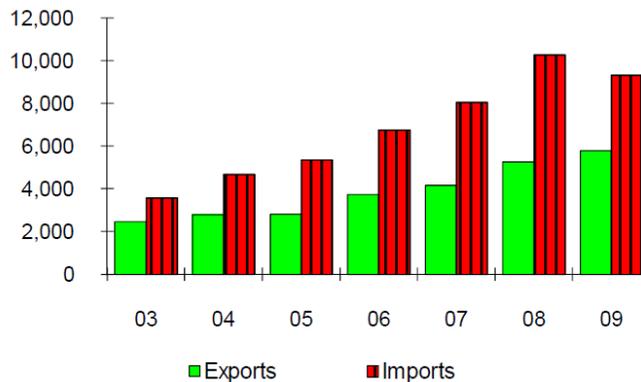


Figure 6: Ghana's export and import levels 2003-2009 (World Bank, 2011)

### Microfinance structure in Ghana

Access to finance is, next to access to electricity stated as being the major drawback to small entrepreneurs in Ghana (World Bank, 2007). Because “the government of Ghana has adopted microfinance as one of the important strategies for poverty reduction and wealth creation” this has been improving since (Asiama, 2007). There are three broad categories of microfinance institutions (MFI's) that cover this demand in Ghana, being formal suppliers (savings and loans companies, banks etc.), semi-formal suppliers (credit unions, financial NGO's etc.) and informal suppliers (susu collectors, small credit associations etc.). There are different regulatory frameworks for these different categories (Asiama, 2007). This has resulted in a strong raise in loans from 2001 to 2007 (see Figure 7). An important actor in the microfinance field in Ghana is the Bank of Ghana (Asiama, 2007). With several measures, including a database with all formal microcredit clients, it provides means to support the finance of micro, small and medium enterprises. This is of extra importance, since many microcredit clients have loans at different MFI's (Agbeko, 2012). However, a large amount of possible entrepreneurs is still not addressed (Bhatt and Tang, 2001). According to Martin, this is mostly due to the inability to provide the required collateral, which makes them a credit risk for the MFI's (Martin, 2009). Collateral is one of the 5 C's (collateral, cash flow, credit history, capacity to pay and character) which is often used to assess the creditworthiness of a request for microfinance (Rosenberg and Gleit, 1994).

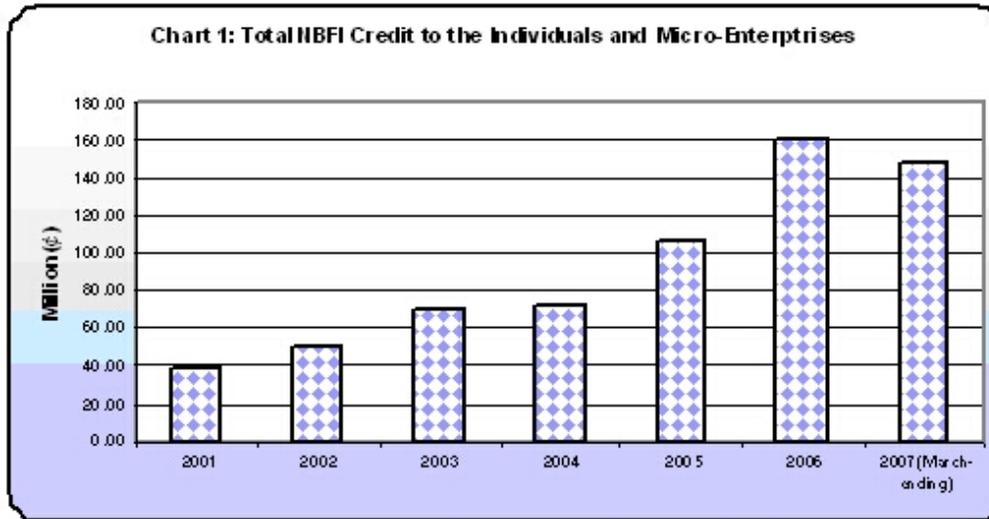


Figure 7: Provided credit to individuals and micro-enterprises in Ghana; 2001-2007 (Asiama, 2007)

### 1.3 uniCredit

This chapter will elaborate on uniCredit Ghana Limited (from now on stated as uniCredit), the micro finance institution (MFI) where the data generation of this research has been performed. Since all the respondents are clients of the Ashaiman branch of uniCredit, a short elaboration of this company and its activities is evident. For the gathering of information both an interview with Mr. Daniel Agbeko, branch manager at the Ashaiman branch, and the website of uniCredit have been used.

uniCredit is a non-bank financial institution which has been operating since 1995. It was formally registered as Kantamanto Savings and Loans Co. Ltd, but this was changed into the present name in 2007 after certification by Bank of Ghana. Before this, there has been a change of ownership in 2005. It owns five different branches, which are all located in the Accra-Tema region. "The primary focus of uniCredit is to provide financial services that are specifically tailored to the needs of personal, micro, small and medium scale enterprises." This is achieved by providing deposit and credit facilities as well as some other advisory services. Credit facilities incline commercial loans which are regular loans with monthly payment duties and susu loans for which daily payment contributions need to be made and consist generally of a lower amount of borrowed money. Advice is in most cases provided during the regular appointments with the loan officers and clients and entail mostly situational circumstances. The total number of employees of uniCredit is around the 260. More specifically, the Ashaiman branch has 38 employees at the moment ranging from loan officers to customer and service officers. The branch has been in existence since 2008 and has about 480 credit clients. Training sessions are organized by uniCredit, where the main focus lies on bookkeeping, loan management and basic accounting principles, thus covering several aspects of business operations skills. These training sessions are meant for the top 10% of their clients.

As the most MFI's in Ghana use the 5 C's of microcredit as criteria for the selection procedure of a client, so does uniCredit. The 5 C's consist of collateral, cash flow, credit history, capacity to pay and character. A client doesn't necessarily need to have good scores for each criterion if the overall score is sufficient. The selection procedure for new clients will take a maximum of five days and for already existing clients, this is three days. These days are counted from the moment that the needed information is generated by the credit officer. Based on the purpose and the history of the client, the monthly interest rate will vary between 3.2% and 4% per month over the total amount of the loan. The interest is thus a stable amount for the lifespan of the loan. Then for every day the client is overdue with its payment, a 0.5% penalty charge per day will be added after a grace period of seven days. This will be applicable for a minority of the cases, since the payback rate is 85% for commercial loans and 95% for susu-loans. If the client is not paying back the money in time, efforts will be made to recover the money. Several stages are prescribed from an invitation to explain the cause for not paying on time to the taking and selling of the collateral and finally to a lawsuit. However, the latter stage has been performed only once in the history of the Ashaiman branch.

## 2. Research design

In the research design, the research objectives, research framework and conceptual model, as well as the research questions and literature framework will be discussed. This will not only state the goals and related research questions that have been set for this research, but it will also help to create guidance on the scope of the research and the relationships between different topics and steps that had to be taken.

### 2.1 Research objectives

The research objective concerns the contribution this research wishes to make to solve a problem outside the research itself. So this is the external aim of the research, which concerns the use of the knowledge (Verschuren en Doorewaard, 2010). In sub-chapter 1.1, the importance of business operations skills has been elaborated on as well as the opportunity to provide microcredit clients with the needed knowledge to possess these skills through training. By combining these two aspects, it becomes clear that a huge opportunity is present. The actual presence of business operations skills in Ghana is not known, but with applied research focussing on this issue, big steps could be taken to overcome this knowledge gap. This can have opportunities for a swifter development as a result. This is also the objective of this research where the impact of business operations skills on the performance of microcredit clients is aimed to be generated. When this information has been retrieved due to this research, it will be possible for further research to create a specific training program that will enhance the performance of microcredit clients. Although future research can focus on interventions, this research is a theory-oriented research where theory is used to tackle a specific problem and in its turn this research will be supplementary for the chosen theory (Verschuren and Doorewaard, 2010). Within this frame, the focus has been on a theory development research, where the theory is tested in a situation which has not dealt with before (Verschuren and Doorewaard, 2010). The research objective can now be stated as follows:

#### **Research objective:**

*To provide useful information for entrepreneurial training programs for microcredit clients in developing countries by investigating the impact of business operations skills of microcredit clients in urban Ghana on the performance of their enterprise.*

The objects that needed to be studied to achieve this objective can be defined, where the research object is defined as “the phenomenon under study about which statements will be based on the research to be carried out” (Verschuren and Doorewaard, 2010). For this study, the research object is the needed entrepreneurial skills for microcredit clients in urban Ghana. Here, the nature of the research perspective needs to be established. The research perspective has been stated as being “the angle of approach towards the research object” (Verschuren and Doorewaard, 2010). In this case, it was aimed to get to know which business operations skills affect company performance of micro businesses in urban Ghana.

## 2.2 Research framework and conceptual model

The research framework and the conceptual model will be elaborated on in this sub chapter. With the use of this information and the combining with the research objective, the research questions were stated. This will be shown in the next chapter.

### 2.2.1 Research framework

A research framework is “a schematic and highly visualised representation of the steps that need to be taken in order to achieve one’s research objective (Verschuren and Doorewaard, 2010).” With the above mentioned definition of the research objective in mind, the following research framework has been created (Figure 8). Herein a distinction has been made between the theoretical review, the empirical study and analysis and finally the conclusions and recommendations. These have also been performed stepwise in this chronological order. These steps are elaborated on below.

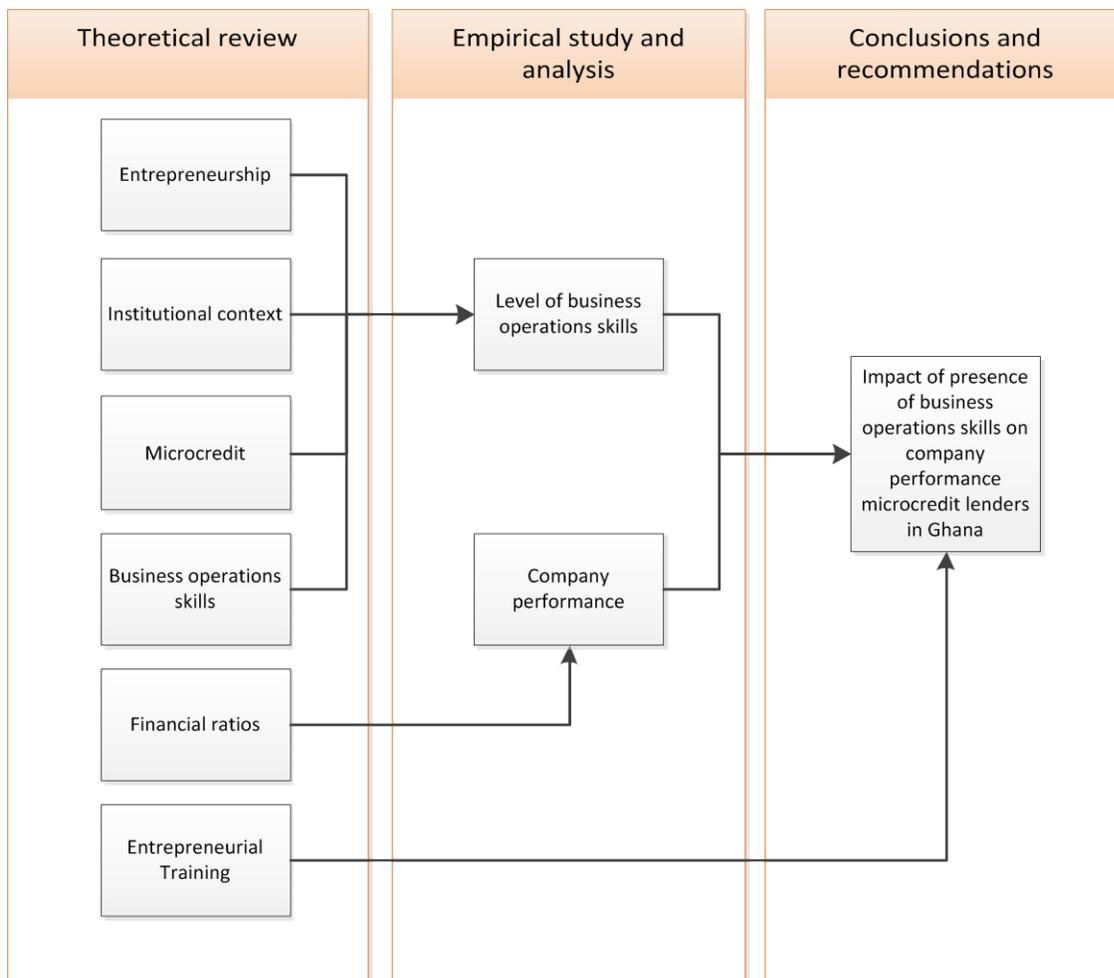


Figure 8: Research framework

First in the theoretical review different concepts are elaborated on, which forms the research perspective (Verschuren and Doorewaard, 2010). Theory has been used to create an understanding concerning entrepreneurship in developing countries, the institutional context of Ghana, microcredit, business operations skills and finally implications of entrepreneurial training. The main topic, the business operations skills for microcredit clients, has been chosen, because this enables this research to investigate which skills impact the performance of the microcredit clients the most. These skills will then need further attention in training programs. For this, a shortlist of the most important skills of the entrepreneur will be created. The entrepreneurial environment in developing countries and the impact of the institutional context of Ghana on entrepreneurship is elaborated on, since it is believed that this plays an important role on the microcredit clients. Finally, the theoretical review will elaborate on the concepts of microcredit and entrepreneurial training. Herein the mechanisms and the effects of these concepts will be stated. The knowledge concerning entrepreneurial training is important as it can relate the output of this research to a practical implication. However, this research itself will not provide practical recommendations for the set-up of training programs. Also, since the greater part of the relevant literature for this research that covers entrepreneurial theory are approached with a Western view, this information has been linked to the Ghanaian situation.

In the empirical study, the theoretical concepts have been put into practice on the research objects. Herein, it has been possible to investigate which business operations skills are present for microcredit clients and which are lacking. This has been performed by combining the level of business operations skills to the financial performance of the small businesses. This resulted in relations between the level of skills and the success of the entrepreneurs.

Finally, the third part of the research framework discusses the conclusions that have been drawn from the analyses of the empirical part of this study. These regard the business operations skills that are relevant for entrepreneurs in Ghana and the impact on the company performance. By discussing this, an overview of the presence of entrepreneurial skills has been given and recommendations have been made concerning the content of training programs for entrepreneurs to enhance their company performance. This will eventually attain the goal of this research, namely the providing of useful information for entrepreneurial training programs for entrepreneurs in developing countries

### **2.2.2 Conceptual model**

Now the set-up of the research has been stated, the hypothesis can also be elaborated on. As is described, every entrepreneur has a set of skills that are needed to lead the company. The presence of these skills is for each individual different, but they do possess a certain amount of these skills. Overall, it is believed that higher levels of each skill will lead to a higher chance of success of the enterprise. This hypothesis is backed up by Markman (2008) who states that “the stronger the competencies, the greater is the success of enterprising individuals.” The presumed relation between the level of business operations skills and the success of businesses of microcredit clients is showed below in 9.

As can be seen, five different aspects that are believed to have an impact on the performance of a business of a microcredit client are stated. This set-up of the experiment is created with the use of the model of Sambasivan et al. (2010) and Smith and Perks (2006). Sambasivan et al. (2010) found a positive

relation between the level of entrepreneurial skills and company performance, but no relation was found concerning the human capital that the entrepreneur possessed. Smith and Perks (2006) also state that the business operations skills are often underdeveloped and impact the company performance. These findings have been used for this research and have also been the hypothesis of this study, where it is believed that a higher presence of the several business operations skills will lead to a higher performance of the enterprises of the microcredit client. Furthermore, situational characteristics of the microcredit client has been generated, which will concern the context of the enterprise, the microcredit loan and the person itself.

Finally, it must be stated that although these three predictors of company performance are used for this research, it shouldn't be forgotten that other factors also have an impact. An example is the macro-environment where the economic development of certain areas will affect performance also. Also, there might be possible relations between business operations skills, the human capital of the entrepreneur and demographic characteristics. This information will be used in the interpretation of the results, but the focus remains on the relationship with company performance.

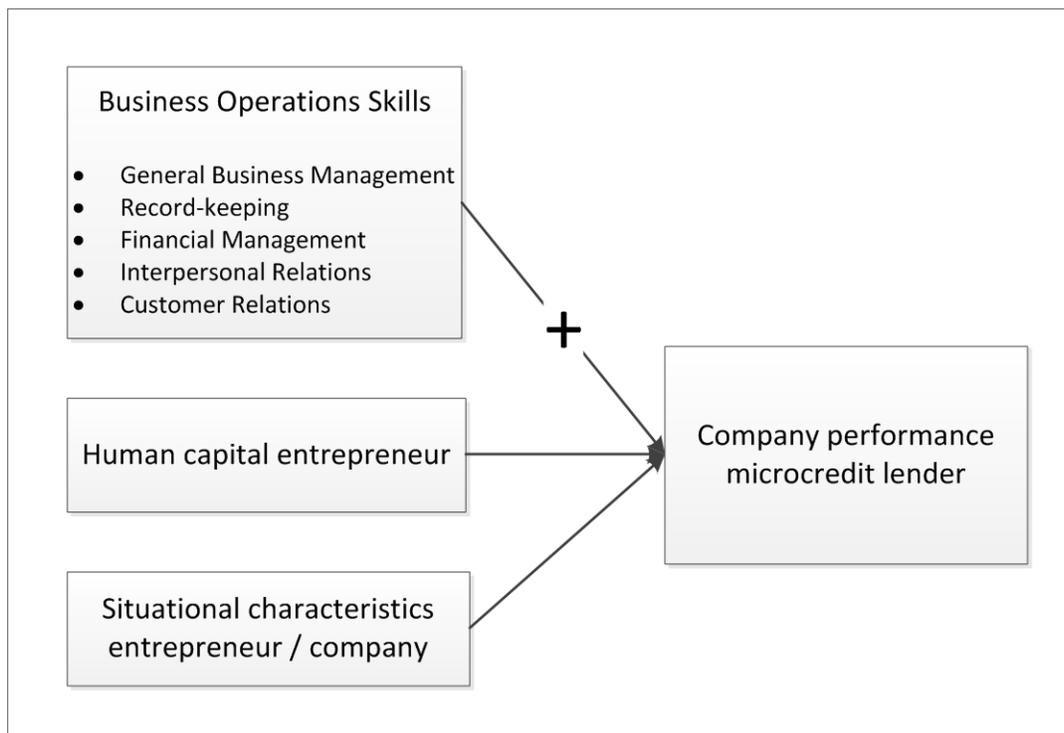


Figure 9: Conceptual model

### 2.3 Research questions

Within this subchapter, the main and sub-research questions will be stated and elaborated on. According to Verschuren and Doorewaard (2010) “the research questions should be formulated in such a way that the answers will yield information that is useful or necessary for accomplishing the research objective.” The research questions should thus be linked to the research objective. With this taken into account, the central research question has been formulated as follows:

### **Central research question:**

*What is the impact of business operations skills of microcredit clients in urban Ghana on the performance of their enterprises?*

Where the central research question focuses on the impact of business operations skills on microcredit clients in developing countries, the research will investigate the situation in Ghana. This will then be exemplary for microcredit clients in developing countries as a whole. Therefore, the sub research questions apply to the situation in Ghana. Below, these sub research questions have been stated, which in their case led to the answering of the central research question. These can be divided in theoretical oriented questions (SRQ 1, 2, 3, 4 and 5) and empirical oriented questions (SRQ 6).

### **Sub research questions:**

1. What are characteristics of entrepreneurship in developing countries?
2. What are contextual factors applicable to Ghana that affect entrepreneurial performance?
3. What is the influence of microcredit on the performance of micro and small businesses?
4. What are business operations skills that influence the performance of micro and small businesses?
5. What are characteristics of entrepreneurial training in developing countries?
6. What is the impact of business operations skills on the performance microcredit clients in urban Ghana?

Sub research question one provided information concerning implications of entrepreneurship in developing countries. In sub question two this will be related to the institutional context of Ghana. Then the third sub research question elaborates on the phenomenon of microcredit and its relation with the performance of micro and small businesses. For sub research question four it is aimed to come up with the relevant business operations skills and their influence on company performance. Sub research question five will elaborate on entrepreneurial training in developing countries. In the empirical part of this study, sub research question six becomes prevalent. This uses sub question four as a basis for data gathering and investigates which business operations skills have an impact on the performance of the microcredit clients in urban Ghana. As stated, the combining of these sub research questions will enable the answering of the central research question. This will, at its turn, result in achieving the research objective.

## **2.4 Definitions of concepts**

**Developing country:** A country that is poor and whose citizens are mostly agricultural workers but that wants to become more advanced socially and economically (MLA, 2011).

**Entrepreneurial education:** The major objectives of entrepreneurial education are to develop enterprising people and inculcate an attitude of self-reliance using appropriate learning processes (Garavan and O’Cinneide, 1994).

**Entrepreneurial knowledge:** Knowledge that is needed by a new venture creator that comprises business-relevant knowledge about products, organization, markets, customers, etc. (adjusted from Braunerhjelm, 2007)

**Entrepreneurship:** The process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence (Hisrich et al., 2008).

**Microcredit:** Small loans made to low-income individuals to sustain self-employment or to start up very small businesses” (Kirchgeorg and Winn, 2006).

**Microfinance institution (MFI):** Financial intermediary that provide small loans to poor people who can offer little or no collateral assets (Gutiérrez-Nieto, 2005).

### **3. Theoretical background**

The different main concepts that have been stated in the conceptual research design will be elaborated on in this chapter. Scientific articles have been used to create an in-depth understanding of each concept which will enable the answering of the sub research questions. Each sub chapter will provide an answer to the sub research question it relates to.

#### **3.1 Entrepreneurship in developing countries**

##### **3.1.1 Introduction**

Entrepreneurship is a worldwide phenomenon and is often claimed of having a large role in the economic growth of a country. An example of this is the work of Gibb (1996) who acknowledges the positive impact on job creation and economic development. Acs et al. (2008) also states this effects and name employment, innovation and welfare effects as important mechanisms. This chapter will discuss the phenomenon of entrepreneurship and relates this to the situation in developing countries in specific. This will enable the answering of sub research question one: “What are characteristics of entrepreneurship in developing countries?”

##### **3.1.2 The entrepreneur**

As there are disputes about the specific definition of entrepreneurship, the definition by Hisrich et al. (2008) has been created with a focus on entrepreneurship all over the world and thus does not focus on the Western view alone. This seems to be all inclusive and will thus be used for this research. Entrepreneurship has been stated as being “the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence” (Hisrich et al., 2008). As stated, many authors created definitions which differ from each other, but the basic idea is the same.

##### **3.1.3. External and internal factors**

As the concept of entrepreneurship will be similar around the globe, the effect on the economic development of a country is not. Naudé (2009) states that research concerning this effect has been largely applicable to advanced economies, where developing economies have received too little attention. He adds to this that “the most pressing binding constraints are, according to current thinking in development economics, located in the institutional and policy environment of a particular country” (Naudé, 2009). More specific, elements that affect the economic growth of a developing country on a macro-level are schooling, life expectancy, fertility-rates, government consumption, maintenance of the rule of law, inflation, and the terms of trade (Barro, 1996). Although these elements will influence the performance of the entrepreneur, it will be more relevant for this research to take a closer look at the micro-level. On a micro-level, different aspects define the success of a business. Critical external factors are mentioned by Okpara and Wynn (2007), being poor infrastructure, low demand for products and services, corruption and poverty. Internal factors are, according to Roy and Wheeler (2006), a lack of market knowledge and training, limited access to capital and finally a lack of trust and cooperation. Another drawback for small entrepreneurs in developing countries is the “the fact that most of them are forced to be entrepreneurs for their own survival rather than being classic entrepreneurs driven by

challenge, inheritance, and independence” (Azmat and Samaratunge, 2009). Also the GEM states that entrepreneurs in factor-driven countries have the highest proportion of necessity-driven motives (Kelley et al., 2011) Because of this, businesses are being set-up without a clear opportunity and with different ambitions than the individuals that start-up a business out of opportunity recognition or an internal drive for entrepreneurship.

### **3.1.4 Conclusion**

Coming back to sub research question one, it can be stated that the entrepreneurial situation in a developing country is very different from the one in an advanced country. Although many obstacles are observed, the perspectives aren't all bad. Research by GEM (Kelley et al., 2011) shows that the Early-Stage Entrepreneurship Activity (TEA) is highest for developing countries (see Figure 2), confirming the statement that the opportunities in these countries are higher than in advanced countries. However, the above mentioned obstacles need to be overtaken to be able to profit from these opportunities. This should show both on macro as on a micro

## **3.2 Institutional factors Ghana**

### **3.2.1 Introduction**

When taking economic growth as a basis for the development of Ghana, the future looks bright. Economy watch ([www.economywatch.com](http://www.economywatch.com), 10/12/2011) predicted a growth of 20.146% in 2011. This will make Ghana the fastest growing economy in the world. However, there are more aspects that need to be taken into account when investigating the contextual circumstances. Altman (2003) for example, states that economy growth in Sub-Saharan countries had largely no impact on job availability. In the previous chapter, aspects of importance concerning the entrepreneurial activity have been formulated. This chapter will relate these aspects, along with other important information, to the situation as it is in Ghana. This enables the answering of sub research question two, being: “what are contextual factors applicable to Ghana that affect entrepreneurial performances?”

### **3.2.2 A small history**

Due to the high amount of coups since the independence of Ghana, the entrepreneurial environment has not been encouraging. Unemployment has been a big problem all along (Palmer, 2007). More specific, political interference, bureaucracy and corruption did not result in the support of small-scale businesses, but rather supporting the large-scale firms (Robson et al., 2008). In their turn, these large-scale firms were not able to improve the economic situation in Ghana. Since the appointment of Kufuor as president in 2001, reforms have been created which improved the circumstances for entrepreneurial activities. This is illustrated by Alonso et al. (2011) who state the democratic nature of Ghana. The goals of the Ghanaian government highlight the positive institutional context stating ambitious objectives. An example of this is the aim to “establish an open, liberal market” (Alonso et al., 2011). This has resulted in positive effects, where Martin (2009) states that “Ghana has a stable and well-functioning democratic system in place. Ghana’s political rights, civil liberties and freedom of press rankings are not only amongst the best in Africa but are comparable to those recorded by countries at much higher levels of income.”

The development of economic circumstances has been improved due to national and international interferences. A national example is the Growth and Poverty Reduction Strategy II (GPRS II) which has as a goal to “create sustainable equitable growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment” (Martin, 2009). Furthermore, the Micro, Small and Medium Enterprise (MSME) Project 2006-2011 by the World Bank comprises of an investment of US \$ 45 million to enhance the access to finance, access to markets and the business environment for MSME’s (Palmer, 2007).

### **3.2.3 The institutional context**

With these changes, also the institutional context of Ghana has been improved. Naudé (2009) described the institutional framework as “the rules of the game”. Since this also has been covered in the previous chapter, only the most striking aspects for the situation in Ghana will be discussed. An aspect that often is mentioned as most important is corruption. According to Robson et al. (2009) small businesses have been largely affected by the high level of corruption which is present in Sub-Saharan countries. According to the World Bank (2005) and ABD (2004) the biggest reason for corruption in developing countries is the client- patron relationship, which describes the interaction between various instances in a country (Khan, 1998). Other causes are a weak enforcement of sanctions and a poor functioning of judiciary and legal system (Azmat and Samaratunge, 2009). In recent years however, the perceived corruption of public officials by entrepreneurs in Ghana has reduced (Robson et al., 2008). Also, the World Bank Country Economic Memorandum (CEM) report shows that problems with corruption and power are smaller than in other Sub-Saharan countries (World Bank, 2007).

Another important aspect of the institutional context is the quality of the infrastructure (Okpara and Wynn, 2007). A proper functioning infrastructure will have as an effect that costs are lowered and market opportunities are expanded (Garmendia et al., 2004). This is mainly due to telecommunications and transport. However, the CEM report states that “Ghana's key infrastructure services were not only short in supply but were characterized by poor quality and unreliable, leading to serious implications for growth” (World Bank, 2007). A doubling of governmental expenses concerning this topic was stated to be needed to improve the state of the infrastructure where a lack of access to electricity is problematic. Contrastingly, the last decades saw an improvement in inflation rates in Ghana (World Bank, 2007). This combined with an annual growth rate of 4.5% during this time and a strong decrease in poverty, resulted in an enterprising environment which is more favorable (Martin, 2009).

Finally, the socioeconomic situation in Ghana has an important influence on the entrepreneurial performances. Family links and connections are of high importance for the operation of the businesses (Buame, 1996). Because of this, there is a high tendency to use family members as employees, which decreases the chance of hiring a qualified worker (Robson et al., 2008). This might be the cause for the low amount of productivity and output per worker in Ghana compared to other Sub-Saharan countries (World Bank, 2007). Especially a low level of skills and technology for small enterprises was noticed to this concern. Because of these strong links with family and relatives, apprenticeships are of high importance in Ghana (Palmer, 2007), which at its turn provides the “main mechanism for the transfer of specialized technical and entrepreneurial skills for the majority of small businesses” (Robson et al.,

2008). Another advantage of the strong ties is the importance of group interest over individual interest which fosters social harmony and the sharing of information and resources (Robson et al., 2008).

### **3.2.4 Conclusion**

In this chapter contextual factors of enterprising Ghana has been elaborated on, which enables the answering of sub research question two: “What are contextual factors applicable to Ghana that affect entrepreneurial performances?” Throughout the history of Ghana, the entrepreneurial circumstances haven’t been favorable for small businesses. Many positive changes have been noticed in the past decade. Although the situation in Ghana is better than the ones in the neighboring countries, it is far from perfect. With corruption which has improved but still causes problems and an infrastructure that needs a double amount of funding to be sufficient, it is clear that there are still many obstacles. However, as stated, this has been changing since the beginning of the 21st century. Improvements have been made, which caused a big impulse for micro- and small businesses. Although still hurdles need to be overtaken, the entrepreneurial environment is gaining quality which enables a higher amount of people to take on a (micro)loan and start-up businesses. Yet still, it has become clear that the performance of the entrepreneur in Ghana is not only dependent on its own skills, but also greatly on the circumstances they have to cope with due to the institutional context of this country. Since these factors are difficult to change for the individual, entrepreneurship still comes with great risks. However, because there are still many opportunities, there is still a high amount of entrepreneurs starting up new businesses (see sub-chapter 1.1).

## **3.3 Microfinance and its impact on company performance**

### **3.3.1 Introduction**

After political independence of Third World countries, Western countries started to become interested in international development projects (Harcourt, 1997; cited by Quadrat-I Elahi and Rahman, 2006). The results of these efforts were however not satisfying. The approach which was used at this time was a top-down one. Microcredit created a change in development strategy, which used a bottom-up approach and received international attention because of the success of the Grameen Bank, a microfinance institution (MFI) which was established by Dr. Muhammad Yunus in 1983 (Bateman and Chang, 2009). Since that moment, microcredit became a commonly known phenomenon in not only Third World countries, but also in developed countries. The importance became even greater when the UN promoted 2005 as the “International Year of Microfinance” and Dr. Muhammad Yunus received the Nobel Peace Prize award in 2006, together with the Grameen Bank (Bateman and Chang, 2009). This subchapter will investigate the impact of microcredit on the micro and small businesses. This will allow the answering of sub research question three: “What is the influence of microcredit on the performance of micro and small entrepreneurs?”

### **3.3.2 Microcredit or microfinance?**

Literature often uses the terms microcredit and microfinance without making a distinction between the two, which creates confusion and misunderstanding (Quadrat-I Elahi and Rahman, 2006). To avoid this confusion in this paper, the terms of microcredit and microfinance will be shortly elaborated on. “Microcredit refers to small loans made to low-income individuals to sustain self-employment or to start

up very small businesses” (Kirchgeorg and Winn, 2006). This thus means that small loans will be provided for individuals that lack money, but do want to be an entrepreneur or want to expand their business. By taking on microcredit, these individuals will be sustainably empowered to enhance their economic position. These loans will be relatively small ones with a short payback period of several months. Because the target group is a risky investment, the interest rate will be very high. Where microcredit focuses on the provision of small loans only, microfinance has a wider scope. Hulme (2008) defines microfinance as “the supply of a whole range of financial services to the poor, including microcredit, micro-insurance, micro-savings, and so on.” According to Quadrat-I Elahi and Rahman (2006) it provides financial as well as social intermediation, which characterizes the difference with microcredit which focuses on the financial aspect only. This paper will use the term microcredit since it investigates the provision of credit to micro- and small entrepreneurs and does not include other forms of microfinance.

### **3.3.3 The potential of microcredit**

Microcredit has been introduced to address the poorest of the poor who do not have access to credit and are therefore unable to compete on the market (Yunus, 2003). This is the target group as it was introduced by the Grameen Bank. However, throughout the years the target group has been widened including the providing of larger amounts of credit for business expansion. Bhatt and Tang (2001) state that in many scientific articles microcredit clients are seen as a homogeneous group, while this is actually far from being true. This group is actually very heterogeneous varying in different kinds of businesses, amount of loan, income level, education level etc., which makes it difficult to apply a single policy on them. Also the form of credit can differ. One example of this is the distinction that can be made between group and personal lending.

Especially in developing countries, many MFI’s can be found, ranging from NGO’s to commercial banks. Where commercial banks have profitability as a goal, NGO’s are often supported by subsidies and do not aim for profit but have poverty reduction as a goal (Bhatt and Tang, 2001). Between these different approaches, basic differences can be discovered. Bhatt and Tang (2001) claim that commercial banks are more successful in maintaining a sustainable business and that NGO’s are highly dependent on subsidies and are therefore less sustainable. This is backed-up by several authors, but it is also stated that MFI’s that make poverty reduction a goal are more effective in addressing the poorest (Morduch and Haley, 2002). They state that microcredit tackles six of the seven Millennium Goals. Furthermore, Wright (2000) concludes that there is a beneficial effect on income increase and vulnerability reduction. However, impact studies have not been able yet to determine whether the effect of microcredit is higher than other poverty reduction strategies (Morduch and Haley, 2002). But it is assumed that it forms a more cost-efficient form of developmental aid than other initiatives (Khandker, 1998; Wright, 2000).

### **3.3.4 Negativities of microcredit**

Where a reduction of poverty has been noticed by different authors (Khandker, 2001; Yunus, 1999; Robinson, 2001 etc.), there is also a wide array of literature highlighting the negativities of microcredit. It is often claimed that authors tend to focus on the positive effects only, neglecting the evidence which shows a negative relationship (Bateman and Chang, 2009). They state that microcredit might have some

short-term successes, but in the long run this will not be the case. They name three main reasons for this, where their first argument consists of the before mentioned phenomenon that authors often neglect the negative aspects of microcredit, making it difficult to state an objective conclusion. Secondly, there is no proof of any poverty reduction due to microcredit. They even claim that poverty reduction might suffer by it, since it undermines other forms of financing. Finally, an argument is made concerning political serviceability, where it can be used as an excuse not to invest in other poverty reduction methods by (local) governments. By discussing these arguments, a claim is made that microcredit forms “a barrier to sustainable local economic and social development” (Bateman and Chang, 2009).

A strong stand is made by a large share of authors that the target group where microcredit is meant for is in most cases not addressed. According to Bhatt and Tang (2001) the poorest of the poor are not likely to be the ones making use of microcredit, because in many cases “there is no focus on tackling the real problems: illiteracy, lack of skills, poor health and a lack of savings” (Bhatt and Tang, 2001). Morduch and Haley (2002) agree about this issue, but question whether it would be desirable when this group would have access to the microcredit since they will be more likely incapable of using it in their advantage. Overall, there seems to be an agreement that microcredit in most cases does not support the poorest of the poor, but targets entrepreneurs with an already existing small working capital. Other problems are concerning the use of the loan. Rahman (1999) argues that wrong usage of the money might lead to an enlargement of debt or will be used for loan recycling, where one loan is used to pay off the other. Microloan being wrongly used is something which is commonly present, since in many cases the money will be used for personal spending (Bateman and Chang, 2009).

As there are different forms of MFI’s, there is also a debate concerning their focus. Bhatt and Tang (2001) argue whether the MFI’s should restrain themselves to financial services only or if they should offer extra services also. It seems that much emphasis has been placed on the MFI’s and macro-level developments rather than on the individual. This seems strange, since “development finance institutions that offer only traditional microfinance services are not as effective as institutions that also help borrowers overcome the psychological burdens of poverty” (Bhatt, 1998). Finally, with the interest rates being very high, it is especially the (for profit) MFI’s that are the ones who benefit from microcredit (Bateman and Chang, 2009).

### **3.3.5 Conclusion**

Now the phenomenon of microcredit has been discussed, sub research question three will be answered, being: “What is the influence of microcredit on the performance of micro and small businesses?” The difference between microcredit and microfinance has been elaborated on, where it was stated that the population sample of this research are microcredit clients. However, when these clients will receive entrepreneurial training, the focus will switch to microfinance. Overall, it is hard to determine the effect of microcredit on poverty reduction and the development of poor individuals in Third World countries. With the high interest rates, it can be questioned whether it is mainly profitable for several MFI’s or also for the clients themselves. It’s clear that the potential is high, which ideally could make it a successful tool. However, the great amount of literature which debates on this topic clearly indicates that there are still thresholds to overcome and that there is still no consensus concerning whether microcredit is a blessing for the poor or not. Cons and Paprocki (2008) correctly state that “debates about pro’s and

con's rages." Bhatt and Tang (2001) continue on this topic stating that "impact studies all have methodological problems" and there is a low amount of literature which focuses on positive as well as negative impacts. This leaves a knowledge gap where truly objective and useful information is missing. In a situation where authors focus on persuading other authors rather than giving a critical insight in the impact of microcredit, a holistic view is not achieved. This makes the debate even harder. Therefore constructive and objective research and discussions are needed rather than research focusing on highlighting all negative or all positive aspects. But as there are still multiple examples of successes, it will be worthwhile to research the opportunities which are present. And as Epke et al. (2010) state that "literature confirms that skill training and tertiary education have a positive effect on enterprise performance", an opportunity might be present which will be worthwhile the investigation.

### **3.4 Business operations skills**

#### **3.4.1 Introduction**

As is elaborated on in sub chapter 1.1, in the research of Smith and Perks (2006) concerning the entrepreneurial skills of black micro-entrepreneurs in South Africa, one of the four types of skills was determined as being 'business operations skills'. Also SEDA (2009) uses these business operations skills in their research concerning the presence of different entrepreneurial skills in the Xhariep district in South Africa. With these researches focusing on a similar target group as this research and with a focus on entrepreneurial education, they will be very useful as a basis for the theoretical model. Both these studies will be used to create a better understanding of the different business operations skills which will be used throughout this research. This identification will allow the answering of sub research question four, being: "What are business operations skills that influence the performance of micro and small businesses?" As human capital has also been stated as being important for entrepreneurial performance, this will also be shortly elaborated on in this sub-chapter.

#### **3.4.2 Elaboration on business operations skills**

The business operations skills which are used by the above mentioned researches are retrieved from Smart Force (2002) and Van Dyk et al. (2001). Each skill is stated to have an impact on the performance of the company and are therefore of importance to the entrepreneur. The business operations skills are divided into five groups, being 'general business management', 'record keeping', 'financial management', 'interpersonal relations' and 'customer relations' (Smith and Perks, 2006). Then, also these groups have been categorized in different concepts. This operationalization of the business operations skills is shown in Table 1. Each of these skills will be shortly elaborated on in the following paragraphs. Since for this elaboration only the researches of Smith and Perks (2006) and SEDA (2009) have been used, these will not be quoted in the following of this chapter. In the cases where other sources have been used, this will be stated.

Table 1: Operationalization of “business operations skills” (Smith & Perks (2006) and SEDA (2009)).

Business Operations Skills	
Skills	Concepts
<i>General Business Management</i>	Short-term planning
	Budgeting
	Ensuring quality of product
	Handling security
<i>Record-keeping</i>	Inventory control
	Filing
	Bookkeeping
	Calculating company performance
<i>Financial Management</i>	Creditworthiness of buyers
	Extra sources of finance
<i>Interpersonal relations</i>	Handling employees
	Creating and living up to employee procedures
	Attracting employees
<i>Customer relations</i>	Generating new customers
	Maintaining good customer relations
	Understanding needs of customers

### *General business management*

#### **Short-term planning**

Short-term planning tends to be quite specific, focusing on monthly, weekly and day-to-day time frames. It provides direction for the small business, reduces the impact of change, minimises waste and sets the standards to facilitate control. Because of proper planning entrepreneurs will be able to look ahead which will decline the amount of unforeseen events.

#### **Budgeting**

A budget helps the entrepreneur to anticipate situations in which he will suffer from a lack of money or the moments in which there is an excess of money. A lack of a budget can lead in the latter case to a missed opportunity to invest for future growth. And in cases of a lack of funds, the entrepreneur will experience difficulties to keep its business running.

#### **Ensuring quality of product**

“The firm is assessed in terms of product and service quality” (Fening et al., 2008). The quality of the product and / or service can differ greatly between different businesses. This will be determined by the process from raw materials to the actual finished goods (Sambasivan et al., 2001).

**Handling security**

The safe being of company belongings can be ensured by the handling of security by the entrepreneur. This entails both the avoidance of losses by theft as well as making sure that company assets will not get damaged.

***Record-keeping*****Inventory control**

By recording the incoming and outgoing products as well as the products in stock, it becomes possible to assess the exact business inventory and its value. With a good functioning inventory control system, the entrepreneur will be less likely to run out of stock or have an excess of stock.

**Filing**

Easy access to documents can be achieved by creating a filing system. By creating an orderly system in which new documents can be filed, the entrepreneur can retrieve them efficiently when needed.

**Bookkeeping**

Bookkeeping consists of the maintaining of internal accounting records of several financial aspects such as accounts receivables and payables, cash records and other accounting records. Good bookkeeping records will enable the calculation of company profit and creates a clear overview of transactions that still need to be performed.

**Calculation of company performance**

Whether it is possible to correctly evaluate and manage the success of the company depends on the ability of the entrepreneur to calculate the company performance. The main financial statements are the income statement, balance sheet and the cash-flow statement. Bookkeeping records can be used to calculate the periodic profit.

***Financial management*****Creditworthiness of buyers**

Before providing credit to a customer, an assessment should be made concerning the creditworthiness of this customer. Non-paying buyers can result in losses for the company. Therefore a proper judgment is needed and in cases of outstanding bills, a quick recovery is necessary.

**Extra sources of finance**

To be able to purchase stock or to achieve growth, extra financial means could be needed. The most common suppliers of these extra sources of finance are banks, suppliers, family and friends.

***Interpersonal relations*****Handling employees**

With a proper stimulation of the employees, their effectiveness will increase and so will the company productivity. Fening et al. (2008) name, amongst others, training, employee appraisals, career development and employee motivation as important tools for achieving this.

### **Creating and the living up to employee procedures**

According to Steers and Porter (1974) there is a positive relation between employee procedure settings and company performance. Clarity about the tasks that needs to be performed will enable the employee to work more efficient.

### **Attracting employees**

With the recruitment of high quality employees, it will become possible to produce better output. The hiring process is herein vital. However, many small businesses face difficulties in recruiting employees with the needed competences (Hornsby and Kuratko, 1990; cited by Fening et al., 2008).

### ***Customer relations***

#### **Generating new customers**

“Promoting the company and its products has a significant relationship with venture performance” (Sambasivan et al., 2001). New customers will generate more sales and higher revenues and are therefore an important aspect in customer relations.

#### **Maintaining good customer relations**

With this skill it is aimed to build long-term relationships with customers. Having good relations will prevent the customer from switching to an other product or competitor. Retaining existing customers has proven to be less time-consuming and costly than finding new customers.

#### **Understanding needs of customers**

SME’s in Ghana “cannot afford to ignore the needs of consumers if they want to stay in competition and become competitive” (Fening et al., 2008). Therefore, it is needed to listen to the customers and gather information about their needs. With this knowledge, the entrepreneur will be able to serve its customers with the right products or services which they really desire.

### **3.4.3 Human capital**

Although human capital is a widely used term, definitions of this are hard to find. For this research the definition of Husz (1998) has been used, being: “The time, experience, knowledge and abilities of an individual which can be used in the production process.” Sambasivan et al. (2010) state demographic characteristics of human capital, naming family background, education, age, work experience and role models. Overall, it is assumed that a well-developed human capital will lead to better entrepreneurial results. This is acknowledged by Crook et al. (2011) who found a positive relation between human capital and company performance. However, training human capital takes time and money to develop or acquire, which potentially offsets its positive benefits (Crook et al., 2011). Although much emphasis has been placed on the positive effects of human capital, this is not evident for everybody. Sambasivan et al. (2010) also investigated the effect of human capital on businesses. Their sample consisted of small entrepreneurs in a developing country, being Malaysia. Their study showed no relationship with the performance of the companies.

### **3.4.4 Conclusion**

In this chapter the different business operations skills have been discussed upon, which allows the answering of sub research question four, being: “What are business operations skills that influence the performance of micro and small businesses?” The studies of Smith and Perks (2006) proved to be useful as a basis with a categorization which has been operationalized already. Five groups of skills have been elaborated on, namely ‘general business management’, ‘record keeping’, ‘financial management’, ‘interpersonal relations’ and ‘customer relations’. Each group consists of different skills, where each skill of these groups affects the company in a certain way. The skill-level of the entrepreneur concerning these concepts will partly define the performance of the business. Therefore, being skillful and having knowledge about these different aspects will be beneficial for the success of the entrepreneurs’ actions.

## **3.5 Entrepreneurial training**

### **3.5.1 Introduction**

In a study on small businesses in the informal sector in urban West Africa, Roy and Wheeler (2006) found that the majority of business owners are entrepreneur by necessity. “Their success was constrained by a number of barriers, including poor access to capital, poor training, and general aversion to risk” (Roy and Wheeler, 2006), which led to a development which has been sub-optimal. Mano et al. (2011) also discuss the issue of training and state that micro- and small business owners are unfamiliar with standard business practices. Also according to Karnani (2007; cited by Epke et al. 2010) the majority of the microfinance institutions’ clients in developing countries don’t have specified skills and can therefore not make good use of the microcredit, which affects the profitability of their company. Entrepreneurial training has the potential to decline this effect, since “skill-training has a positive effect on enterprise performance” (Epke et al. 2010). Furthermore, Sverrisson (1997) noted that the level of education and training of an entrepreneur has a big influence on the success of small businesses. Although many authors seem to agree upon this, there is no clear conformity regarding the design and the exact effect of entrepreneurial training. This chapter will discuss the possibilities and the pitfalls of entrepreneurial training, hereby answering sub research question five: “What are characteristics of entrepreneurial training in developing countries?”

### **3.5.2 Positive effects entrepreneurial training**

All over the world different projects have been initiated. Gray et al. (2011) analyzed several best practices, where the effect of the training has created clear improvements on their knowledge of debt management, saving and budgeting. Furthermore, it showed situations in which microcredit clients who received entrepreneurial training improved their revenues. Even more striking, they noted “higher revenues for education clients during poor sales months” (Gray et al., 2011). Also, the effect of health education for this target group was examined and showed positive results. The study of Ekpe et al. (2010) summarizes several training programs in Africa, which all show similar results stating that entrepreneurial training has a positive effect on enterprise performance. A study concerning the training of basic-level management skills in Ghana concludes that a positive relation can be found with business practices and performance (Mano et al., 2011). Finally, Echtner (1995) states that “entrepreneurship programs may be one of the most cost effective means of reaching, educating, and, significantly, empowering local individuals.”

### 3.5.3 Negativities of entrepreneurial training

However, not everybody agrees on the success of training programs. The research of Karlan and Valdivia (2011) concerning business training on Peruvian group clients shows “little or no evidence of changes in key outcomes such as business revenue, profits, or employment.” They also note the risk of loan officers becoming trainers, since they might have different priorities. Another drawback is stated by Mano et al. (2011) who noticed that the positive results of training are not measured for all the participants, which makes them believe that “a training program may improve the managerial abilities of only a few participants” (Mano et al., 2011).

### 3.5.4 The design

Where the positive effect of training seems to be acknowledged by most authors, the design of the training program creates more discussion. “There is a lack of accepted paradigms and theories” (Garavan and O’Cinneide, 1994). Garavan and O’Cinneide (1994) also claim that, although the field is expanding, most of the research is fragmented and with an exploratory, descriptive orientation. This is agreed by Albornoz (2008) who writes that “most empirical research found on entrepreneurship literature is not directly related to entrepreneurial action.” Kirby (2004) adds that the entrepreneur is often taught “about” entrepreneurship instead of “for” entrepreneurship, meaning that there is not enough focus on developing specific skills. A more applied approach for the entrepreneur is thus needed.

Differences in the design of training programs can be found between chronological and cross-sectional (Echtner, 1995) and between business skills and entrepreneurial mindset training programs (Nieman, 2001). Furthermore, an important tool for teaching entrepreneurship is experiential learning (Timmons et al., 1987). Experiential learning is “the process whereby knowledge is created through the transformation of experience” (Kolb, 1984). This has close linkages with the system of apprenticeship which is often used in African countries and proves to be of importance (see sub chapter 2.2.3). Dhliwayo (2008) investigated the system of experiential learning in South Africa and concluded that the outcomes are not yet as positive as hoped for. However, he states that there are opportunities to improve this. The research by Simpson et al. (2004) also concludes that the success of entrepreneurs relies heavily on prior knowledge and experience. The model of Smith and Perks (2006) has been used to operationalize the business operations skills. However, their article also linked these skills to possible approaches of entrepreneurial training for small entrepreneurs in South Africa. This makes it thus also very interesting for this research to combine these training methods with the business operations skills. Smiths and Perks (2006) discuss four different approaches to training intervention, being learning by exposure, education, experimental and experiential. With learning by exposure the entrepreneur should gather information by himself, the educational approach requires the entrepreneur to attend classes, experimental learning involves experimenting with new ideas and concepts and finally experiential learning involves learning by experience. For each business operations skill, a specific approach will be most effective (Figure 10). Final statements concerning entrepreneurial training programs are made by Ojala and Heikkilä (2009) stating that the programs should always be adapted to the relevant culture. Furthermore, Garavan and O’Cinneide (1994) warn that there is no common agreed program and that therefore “training programs vary according to the trainers’ preference.”

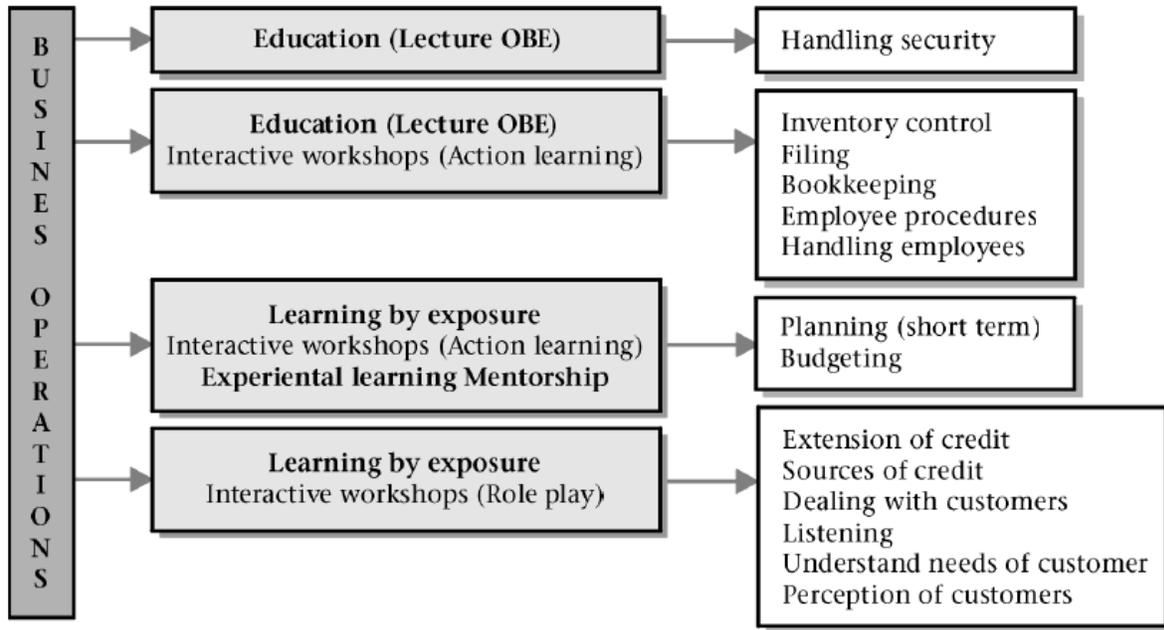


Figure 10: (Part of the) model of suggested training interventions/methods for upgrading black micro business operations skills (Smiths and Perks, 2006)

### 3.5.5 Conclusion

Concluding upon the topic of entrepreneurial training it becomes possible to answer sub research question five. It can be stated that there is a wide variation in training programs. Different approaches can be used to teach certain business operations skills. Not all of these are successful, but there is a wide array of initiatives that have had positive results. Therefore Henry et al. (2005) states that “little uniformity can be found concerning entrepreneurial education programs, but at least some aspects can be successfully taught.” This indeed seems to be the case, however, it shouldn’t be forgotten that the effect is also highly dependent on the enabling or disabling environment within which the training is implemented (Palmer, 2007).

## 3.6 Company performance

### 3.6.1 Financial ratios

A good way of comparing the performances of companies of different sizes is to calculate and compare financial ratios (Hillier et al., 2010). Financial ratios “may be taken to give an indication of relative success or failure” (Whittington, 2000). A common problem with comparing ratios is that different sources often don’t compute them in exactly the same manner, which can result in differing values due to the calculation method (Hillier et al., 2010). There are many different financial ratios which can be used when trying to compare company performances. For this study however, only five ratios will be used based on the research of Hillier et al. (2010) who describe the most important ratios and its applicability in different situations. They place a clear focus on profitability ratios stating that these are the most commonly accepted ratios. Also liquidity and asset management ratios are stated as being important measurements for company performance and will also be used for this research. The

combining of these three financial ratios will give information about the performance from different angles. Due to many insecure circumstances for small companies in Ghana, there is a clearer focus on short-term instead of long-run aspects. Therefore long-term solvency ratios are not taken into account. Furthermore, since market value ratios focuses on outstanding shares, also these ratios are not applicable for this research.

### *Profitability ratios*

As was stated in the previous paragraph, profitability ratios are the most widely used financial ratios to compare company performances. Profitability ratios “are intended to measure how efficiently the firm uses its assets and how efficient the firm manages its operations” (Hillier et al., 2010). The focus here lies on the net income. The net profit margin, return on assets and return on equity are most common (Hillier et al.,2010). These three ratios are shown below.

#### Equation 1

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Sales}}$$

#### Equation 2

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

#### Equation 3

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Total Equity}}$$

Since asset value is an important component of the return on assets as well as the return on equity, it is doubtful whether these ratios can be used in this research, because this value is assessed by the loan officers who are no real experts in this matter. This won't be a problem for the net profit margin since this uses financial transactions only and no estimations of the value of the property.

### *Liquidity ratios*

Liquidity ratios describe the firms' ability to pay its bills over the short run (Hillier et al., 2010). As there are several ratios covering this issue, the quick ratio seems to be the most relevant one, because it inventory into account also. Other aspects of importance for the calculation are cash in hand and at the bank and short-term loans. The equation for the quick ratio is as follows:

#### Equation 4

$$\text{Quick Ratio} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current Liabilities}}$$

### *Asset management ratios*

Finally, asset management ratios will be used in this research which describes the efficiency with which a company uses its assets to generate sales (Hillier et al., 2010). The asset turnover ratio is the most straightforward method which uses the total sales and total assets to calculate the efficiency of the use of company assets.

#### Equation 5

$$\text{Asset Turnover Ratio} = \frac{\text{Sales}}{\text{Total Assets}}$$

### **3.6.2 Conclusion**

An assessment of the different financial ratios which can be used resulted in five different ratios that can be effective in comparing company performances in a country such as Ghana. As profitability is the best way of calculation this, the main focus lies here. However, liquidity and asset turnover also measure important aspects of running a business and will therefore provide extra information for comparison. Altogether, these ratios will allow a thorough assessment of the performances of the different companies.

### 3.7 Theoretical framework

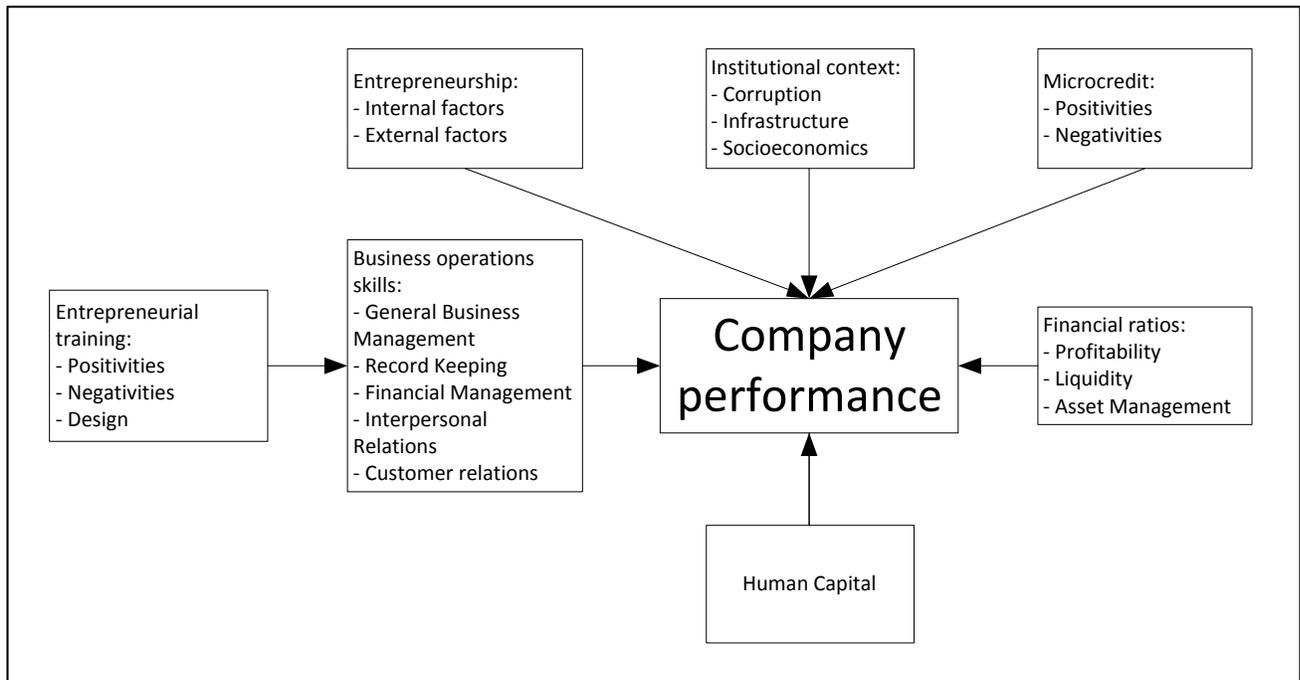


Figure 10: Theoretical framework

In the theoretical framework it is shown what theories are used to enable the answering of the main research question, being: “What is the impact of business operations skills of microcredit clients in urban Ghana on the performance of their enterprises?” This research question consists of a dependent (business operations skills) and an independent variable (enterprise performance). For the explaining of these variables, different theories by different authors have been examined. The main aspects of these theories will be briefly elaborated on in this sub-chapter. The schematic overview of the theoretical framework can be found in Figure 11.

The main focus of this research is the business operations skills of the microcredit clients. Five main groups have been identified and operationalized, being general business management, record keeping, financial management, interpersonal relations and customer relations. Each of these groups consist of another set of skills of which the extent to whether the entrepreneur owns this skill will have a positive relation with company performance. Theory has shown that entrepreneurial training has the possibility to enhance these business operations skills. However, the effect will depend on several aspects. The training design should be adapted to the situation and goals and it should be taken into account that with the wrong approach, negative effects might become apparent also.

Theory on entrepreneurship in developing countries, the institutional context of Ghana and microcredit is a useful theoretical addition since it explains other factors than the business operations skills that impact the performance of the company. It is shown that microcredit doesn't only have positive effects, but that also some drawbacks are accounted for. Furthermore, entrepreneurial theory shows internal factors as well as external factors that influence the businesses of the microcredit client. The institutional context of Ghana itself has been examined too which shows that corruption and bad infrastructure still impact the entrepreneur. Also socioeconomic aspects have an effect, but these are both positive as negative. Finally, since the data will also examine the effect of human capital, this concept has been elaborated on briefly as well.

The independent variable, company performance, needs to be measured also. To be able to compare the performance of the different entrepreneurs, corporate finance theory has been used to be able to calculate comparable financial ratios. Herein, the main focus lies on profitability ratios, but also liquidity and asset management has been accounted for. By using these ratios, the success of the microcredit clients can be quantified.

## 4. Methodology

This chapter will discuss the methodology of this research. This was used as a guideline to gather the needed information to answer the research questions that have been formulated. This thus concerns the design of the implementation stage of the project. It covers the questions how, where and when research is performed in order to answer the (sub) research questions (Verschuren and Doorewaard, 2010).

### 4.1 Research strategy

To be able to answer the research questions, data has been gathered. For this, a research strategy is needed. This subchapter will discuss the chosen strategy for this study. As can be seen in the research framework, the analysis will be performed regarding the business operations skills of microcredit clients that impact company performance (SRQ 6). So the main source of information that was needed is the performance of the companies and the skill level of the microcredit clients. A strategy is needed to attain this information.

Verschuren and Doorewaard (2010) discuss five research strategies, being survey, experiment, case study, grounded theory approach and desk research. The choice for a strategy depends on three key decisions, which they have formulated as follows:

- Breadth versus depth
- Qualitative versus quantitative research
- Empirical versus desk research

#### 4.1.1 Desk research

The theoretical oriented sub research questions were answered by performing a desk research. For this, (scientific) literature has been examined to create the needed background information for the empirical section.

#### 4.1.2 Survey research

The empirical study concerns a cross-sectional survey research (Verschuren and Doorewaard, 2010). The main object that be investigated is the business operations skills of microcredit clients. Also the company performance, human capital of the entrepreneur and some situational characteristics has been captured. With the use of this survey, the relation between business operations skills and company performance of micro and small businesses (SRQ 6) was measured. A survey is defined as being “a research with large numbers of randomly selected research units that offers a broad survey of the relevant field” (Verschuren and Doorewaard, 2010). To be able to state strong conclusions it was chosen to prefer breath over depth. The different concepts have been quantified using a self-assessment survey concerning their skills using a Likert-scale ranging from one (extremely low) to seven (extremely high). This was performed face-to-face to ensure that the entrepreneurs filling in these surveys had a good understanding of these concepts and answered the questions honestly. Finally it is chosen that an empirical rather than a desk research was used. A desk research will be useful for the literature study that will prepare this part of the empirical study, but for the actual analysis information from the entrepreneurs themselves are needed.

Triangulation of sources and methods has been used to link the information retrieved from the microcredit clients to information from experts from microfinance institutions (MFI's). So next to the survey, credit officers of several MFI's were interviewed concerning the business operations skills of the microcredit clients. Also financial results of the entrepreneurs have been taken into account. The combining of these sources and methods lead to a better understanding of the situation. This covered the problem described by Verschuren en Doorewaard (2010) that a survey "has major limitations concerning depth and knowledge."

## **4.2 Data collection**

### **4.2.1 Research sources**

Several sources have been used to gather the needed research material. This includes all the methods that will gain the information and knowledge that helped to answer the (sub) research questions. The following resources have been used to answer the theoretical sub research questions:

- Scientific articles using online databases: e.g. ABI/Inform Global, Scopus, Web of Science, Google Scholar etc.
- Articles using scientific journals: e.g. Journal of Small Business and Entrepreneurship, Entrepreneurship; theory and practice, Education and Training, Journal of Management, Journal of Business Venturing
- Scientific books on entrepreneurship, new venture etc.
- Documents and reports: e.g. GEM Report (Kelley et al., 2011)
- Business Journals
- Websites
- Media (printed and electronic)
- Interview with MSc Daniel Agbeko

For gathering information for the empirical sub research questions the following resources have been used:

- Surveys using microcredit clients
- Interviews with credit officers of (MFI's)
- Data uniCredit concerning microcredit clients and their financial situation.

### **4.2.2 Sample strategy**

The population sample are microcredit clients in the service-, retail- and manufacturing sector in an urban area, which is in line with the sample which is used by Smith and Perks (2006) and SEDA (2009). All the respondents are clients of the Ashaiman branch of uniCredit Ghana Limited, located in Accra. The sample had to fit the requirements of having 0 to 15 employees, a maximum loan amount of 15.000 Ghana Cedi's (around € 6.500) and the acquired loan cannot be older than 12 months. This enabled the sample to generate micro and small businesses only.

As stated, the customers of uniCredit have been used as a sample, which consists of 102 entrepreneurs. This created a sample which is large enough to base conclusions on. For this, a strategic sample has been performed. The Ashaiman branch has functioned as the interview setting, where the clients were sent to the researcher after their appointment with the credit officer. Every client has regular appointments with their credit officer. Using this strategy, the sample remained a random one since it depended on the clients' appearance at the bank, so the respondents were not selected by the researcher. For the selection of employees of MFI's, a strategic sample was used based on the knowledge of the possible interviewees. This has been decided by contacting the MFI's where a credit officer was appointed by the MFI itself who suited the selection procedure.

Finally, it must be stated that because of the fact that microcredit clients have been chosen for the sample, the results will be generalizable for microcredit clients as a group only. These results can however not be used for entrepreneurs that didn't qualify for microcredit. This is because the choice of a MFI whether a person receives a loan already selects the lesser companies out of the sample. Therefore, the sample concerns only entrepreneurs who were thought to have promising companies.

### **4.2.3 Survey and interview strategy**

Next to the financial information, two different sources of information were used, being credit officers of MFI's and microcredit clients. Both sources were approached differently. This is because the educational level is different between the two sources and because the needed information is also different. By interviewing credit officers of MFI's, generic information concerning the business operations skills of microcredit clients is retrieved. For the microcredit clients, specific information is generated that is applicable to their situation. For both the sources, the method of face-to-face has been used and the interviews with employees of MFI's were semi-structured (Verschuren and Doorewaard, 2010). Furthermore, the survey- and interview questions were created by using an operationalization of the topics on which the information is needed. For this, the research of Smith and Perks (2006), Sambasivan et al. (2010) and SEDA (2009) was used as will be deliberated on later in this chapter. Since the surveys and interviews is the main source of information, great care has been placed in a good creation of questions and follow-up questions.

#### **Credit officers MFI's**

For the interviews with the credit officers of the MFI's, experts on microcredit clients and their processes have been selected. The goal is to generate knowledge concerning their perception of the business operations skills of microcredit clients and their impact on the company performance. Interviews with five credit officers from differing MFI's have been performed, being Opportunity International, ProCredit, HFC Bank, uniCredit and Express Savings and Loans Company Limited. This created insights from different perspectives. Each interview took about one hour to gather the needed information

## **Microcredit clients**

The major part of the research concerns microcredit clients themselves. These are the objects of interest in this study and therefore provided important knowledge. The goal of these surveys is to get an overview of the presence of the business operations skills of the microcredit clients. These surveys took about 30 - 45 minutes and were executed by the researcher himself at the office of uniCredit. Since not all the respondents were familiar with the English language, two translators have been used who are both credit officers at the Ashaiman branch of uniCredit. These have been the same all along to ensure the quality of the data. The translators were familiar with the content of the survey and research and were knowledgeable in the field of microcredit and business operations skills.

Since the honesty of answers is crucial to the quality of the data, great care has been placed on ensuring the respondent of its anonymity. Also, the distinction between uniCredit and the independent researcher has been emphasized greatly before each start. Because of this effort, the respondent didn't feel that the answers would affect its relationship with the credit officer. For every skill, a small explanation was asked. This created both an interesting insight to the systems the microcredit clients use for the execution of each skill, but also functioned as a safe net to ensure that the respondent understood the questions correctly. Also, by explaining the choice for the skill-level, the respondents became more aware of the implications of its choices.

### **4.2.4 Survey set-up**

The conceptual model which had been elaborated on shows the different aspects that were generated by using the surveys. This has been created using the study of Smith and Perks (2006), SEDA (2009) and Sambasivan et al. (2010). Although Sambasivan et al. (2010) focus on small and medium enterprises, large parts of their model can be used, such as demographics and human capital. The different business operations skills that were used in the survey are operationalized and elaborated on in the literature review. The operationalization proved to be very useful for the survey where each skill led to one question. This question was sufficient to quantify this skill. Since the respondents had to do a self-assessment, the questions were for each skill basically the same. Each question starts with "how would you assess your skills concerning ...?" For full insurance that the questions were understood, an elaboration of the concept was given also. The full survey (as well as the interview) can be found in appendix G.

### **Business operations skills**

The main aspect however, is the business operations skills. These have been elaborated on by Smith and Perks (2006) and SEDA (2009) who stated five main skills (Table 1): general business management, record-keeping, financial management, interpersonal relations and customer relations. These are all skills that are applicable to micro and small entrepreneurs. These have been used for the operationalization of business operations skills.

For each of the five main skills, different concepts have been stated that can be used for the measurement of this skill. As stated, self-assessment with a Likert-scale (where 1 is extremely low and seven extremely high) was used for the microcredit clients to state their perceived skill in the different concepts. Combining these answers generated a common idea of the level of the different business

operations skills. Table 1 shows the operationalization upon which the questions are based. As stated, also a short explanation of the concepts was provided to ensure accurate answers.

#### **Human capital entrepreneur and situational characteristics**

To create a better understanding of the microcredit client, also his human capital will be measured. This will not involve as specific skills as operationalized for the business operations skills, but general education and experience questions. For these survey questions, the research of Sambasivan et al. (2010) has been used as well as other authors (Rose, 2006; etc.). Although Sambasivan et al. (2010) didn't find a relationship between human capital and company performance, an analysis covering this might still result in useful knowledge. Furthermore, questions will be stated concerning basic demography and other contextual information, for example the amount of microcredit borrowed. Also for this, Sambasivan et al. (2010) has been used as a guideline as well as several other articles that use similar questionnaires. The research of Rose (2006) is an example of this.

#### **4.2.5 Company performance strategy**

In subchapter 3.6 the different financial ratios have been elaborated on. It's clear that these ratios can say different aspects concerning the performance of the company. The combining of these ratios is useful for this so this was subject to investigation during the data collection at uniCredit.

The financial records of uniCredit of all the interviewees have been used to determine the financial ratios (see subchapter 3.6). This is possible because uniCredit assesses each clients' financial situation before granting a loan. Therefore, information concerning the profit statement and the balance sheet could be used for calculations. Since all the loan officers use the same systems to assess the financial situation of the client, the data can be used for comparison. Hereby, it must be stated that ten of the 102 respondents showed no balance sheet in their financial data. For these only the net profit margin could have been calculated.

As is shown in the subchapter concerning validity and reliability, the model of the financial ratios of return on equity, return on assets and the quick ratio proved to be ineffective as performance measurements. Therefore, only the net profit margin and asset turnover ratio have been used to base conclusions upon. Since literature stated the relevance of net profit margin over the asset turnover ratio and because the model of the net profit margin showed better figures for generalization, this model will be the main focus for company performance. Hereby, the asset turnover ratio can be used for extra information, but the main emphasis is not on this ratio.

#### **4.3 Validity and reliability**

To be able to know whether the relationships as are shown in the results are useful, the assumptions of the statistic model should be checked. By doing so, the validity and reliability of the data can be measured. When these are favorable, it becomes possible to draw conclusions about the research population based on the used sample (Field, 2009). Some of the important assumptions will be discussed for each model, being multicollinearity, homoscedasticity, independent errors, normally distributed errors and linearity. Finally, for each model, a cross-validation analysis will be performed using model fit statistics. For detailed information concerning the different values and graphs that has

been used, the appendixes can be consulted. Because of the extreme low value of the adjusted  $R^2$  (0.000) and the lack of a significant F-change of the models for return on equity and return on assets, these models show to be useless and will not be investigated further.

### **Multicollinearity**

“Multicollinearity exists when there is a strong correlation between two or more predictors in a regression model” (Field, 2009). If this is the case, the variables correlate too much which influences their values. VIF values can check whether the assumption of no multicollinearity has been met, where the values should be around one. This is so for the net profit margin-, asset turnover ratio- and quick ratio-model, so there are no problems concerning this assumption

### **Independent errors**

With this assumption it should be investigated whether the residual terms are independent (Field, 2009), meaning that the errors of the predictors show no correlation. The Durbin-Watson test is a useful tool which tests serial correlations. Values should be around two, where values lower than one or higher than three are causes for concern (Field, 2009). For none of the models, evidence has been found that this assumption hasn't been met.

### **Homogeneity of variance**

Another assumption that should be taken care of is whether the variance of the residuals is the same across all levels. If this is the case, homoscedasticity has been achieved. A method of testing this assumption is by plotting the standardized predicted values of the dependent variable to the standardized residuals. There will be heteroscedasticity when the differences in variance are larger with each level. When taking a closer look at this graph for the quick ratio-model, it becomes clear that this assumption has not been met. For the net profit margin (Appendix D) and asset turnover ratio-model however, no serious threat can be found.

### **Linearity**

A graph will also be used for checking whether the relationship that has been modeled follows a straight line, so being a linear one (Field, 2009). This is the case for all the three models, although this line is strongest for the net profit margin and less evident for the quick ratio.

### **Normal distribution of the errors**

A normal distribution of the errors of the data set should be present, which means that the differences between the model and observed data should be mostly close to zero (Field, 2009). This can be investigated by checking the histogram for the typical bell-shaped normal distribution curve and the amount of deviations on the normal probability plot. Again the quick ratio model shows weak support for this assumption, where the net profit margin and asset turnover ratio models are in favor of a normal distribution.

## Cross validation

By using a cross validation analysis it becomes possible to assess how well the model is generalizable and thus how well the model can predict the outcomes in a different sample (Field, 2009). This can be done by calculating the adjusted  $R^2$ , which shows the amount of the variability in the outcome that is accounted for by the independent variable. For each model there seems to be a stronger model fit using the backward method than when using the forced entry method.

Appendix D shows that for the net profit margin there is just a small difference between  $R^2$  (0.276) and the adjusted  $R^2$  (0.188). This model can thus very well be used for generalization of the data. The  $R^2$  shows that 27.6% of the variability in the outcome is accounted for by the independent variables. This relationship is a significant one (0.000).

The results for the asset turnover ratio model are clearly less strong, stating a  $R^2$  (0.150) and adjusted  $R^2$  (0.056) which is more than twice as low than the one for the net profit margin. Only 9.6% of the outcome is thus a product of the variables of this model. However, in this model, the relationship is not significant (0.188).

## Conclusion

Data generated by SPSS shows that not all the five models of the financial ratios are useful for further analysis. With extremely low adjusted  $R^2$ -values, the models of return on equity and return on assets are not generalizable. Although the quick ratio shows a slightly higher adjusted  $R^2$ -value, the assumptions of homogeneity and normal distribution have not been met. Therefore, also this model cannot be used to base conclusions upon. This leaves the net profit margin and asset turnover ratio as the two usable models, where the adjusted  $R^2$ -values of the net profit margin are twice as high. Furthermore, the asset turnover ratio model didn't show a significant F-change. This means that the conclusions based on the net profit margin model are the strongest. And because literature shows the relevance of net profit margin over asset turnover ratio concerning the comparison of financial data, this research uses only the net profit margin as a quantification of the company performance.

## 4.4 Limitations

Some respondents found it difficult to understand the terminology that was used in the surveys. This was largely due to the lack of knowledge concerning the skills. This problem was countered by providing simpler explanations in the survey. Furthermore, the face-to-face contact with the researcher was of vital importance in these situations, since it enabled further explanation in the cases that difficulties were still apparent.

Since the microcredit clients will self-assess their skills, it is a possible problem that they will assess their skills too positively. This tendency of some of the respondents was explained by one of them, stating "if it is below average, it is not up to the standards, so no good." It is a rather subjective measurement, but the large sample and the face-to-face method that is used influenced this problem in a positive way. The large sample will correct for outliers and taking the interviews face-to-face will enable the researcher to correct the microcredit client in such cases. By demanding an explanation for each skill-level, the

respondent became aware of the correctness of the answer, but also the researcher could assess whether the skill-level relates to the explanation.

A bias can be found in the selection of the sample. Because the respondents were all microcredit clients of uniCredit, they have been selected by this MFI. With this selection, the best entrepreneurs have been selected already where non-promising ones have not been granted a loan. This has as a result that the population sample is not generalizable to the whole population of micro and small entrepreneurs, but to microcredit clients only.

Another limitation to this research is the fact that several interviews had to be performed with the use of an interpreter. This might provide different input, because the formulation of the interpreter can differ from the researchers'. By translating every sentence and by using only two interpreters, this problem could be controlled. These persons were credit officers themselves and were familiar with the content of the research and survey.

Also, it proved not to be possible to calculate a time span of several years for company performance calculations. This is because calculations are made by the credit officers at the time of loan-application. For the next application a new calculation is made. However, not all the respondents applied for more than one loan so a time span profit calculation is not possible. Thus for a good comparison only the latest calculation is applicable.

The willingness to cooperate can be a problem for microcredit clients that face debts. The way the researcher positioned himself is therefore crucial. It proved to be of importance to make sure what the purpose of the interview is. It was stated clearly that no information that was acquired during the survey would be communicated to the credit officers. Therefore, great emphasis has been placed on making clear that the researcher is an independent one, as well in words as in appearance. In the cases that translations were needed, it was made sure that the translator was not the credit officer in charge of this client. This, and the other measures, improved the willingness to cooperate and took away skepticism of the interviewees.

Finally, the background of the researcher is also an issue that proved to be a limitation to this research in the beginning. Because the researcher has a Western background, being born in the Netherlands, he had a limited amount of knowledge concerning the situation as it is in Ghana. However, due to a high experience with travelling through countries with differing cultures, it proved to be relatively easy to adapt to the situation in Ghana. Furthermore, because of an intense collaboration with a Ghanaian PhD-student, pitfalls were prevented and Western views were adapted to the Ghanaian circumstances. Finally, the researcher allowed a time span of two weeks to get adapted to Ghanaian standards before starting the actual data generation. Of this, one week was used to practice and fine-tune the interviews.

## 5. Results

The literature that has been discussed in chapter three has been used to create surveys and interviews. This chapter will discuss the results of the analyses of the data that has been generated in the empirical part of this research. This will enable the answering of sub research question six, being: “What is the impact of business operations skills on the performance of microcredit clients in urban Ghana?”

### 5.1 Survey microcredit clients

#### 5.1.1 Introduction

This chapter will describe the analysis of the survey containing the skill-levels of the microcredit clients concerning their business operations skills, their situational characteristics and their human capital. Data has been generated and SPSS has been used to analyze the impact of these skills on the company performance. For this, multiple regression was used, being “an extension of simple regression in which an outcome is predicted by a linear combination of two or more predictor variables” (Field, 2009). The equation for this analysis is shown in Equation 6.

Equation 6: Multiple regression

$$Y_i = (b_0 + b_1X_{1i} + b_2X_{2i} + \dots + b_nX_{ni})$$

#### 5.1.2 Data generation

As is described in the methodology chapter, microcredit clients at uniCredit have been used as respondents of the survey. During the data generation, a total of 102 individuals have been interviewed. This has taken place at the office of the Ashaiman branch of uniCredit where the researcher operated from a separated desk. The sample consists of all the clients who were present due to appointments with loan officers and fitted the criteria as is described in the methodology. For this, the clients were asked to participate after their appointment with the loan officer was finished. Because of this, the response rate was an optimal one. However, since these interviews were performed at the uniCredit office, interviewees might have had the tendency to overrate themselves. Because this problem was foreseen, efforts were made to avoid this. Examples of these efforts are the face-to-face method, a clearly different clothing style by the researcher and the guarantee that the information was not to be seen by uniCredit. The face-to-face method proved to be important, since many respondents were forced to think thoroughly about their answers. Also some of the respondents were not able to understand each question or were even illiterate. To be able to retrieve the financial records of the clients, the database of uniCredit has been used. For each client a balance sheet and profit statement was present. The data generation was performed over a period of ten weeks.

For the analysis of the data, the total impact of the dataset on the company performance has been calculated and from here the analyses have been narrowed down until they eventually were made out of only several variables (see equation net profit margin). The total dataset showed the impact of the situational characteristics, human capital and business operations skills on net profit margin in the same model.

### 5.1.3 Descriptives

Now the basic descriptives of the different variables will be stated and briefly discussed. These are shown in appendix A where the minimum and maximum values are stated as well as the means and their standard deviations, which give interesting information about the characteristics of the interviewees of this study. To have the same descriptives for the dummy variables, different tables have been created, which are also stated in appendix A. The sample has a size of 102 respondents. The average age of the respondents is 41 where the age at start-up has a mean of 32. Of these, 57.8% were men and a clear majority is married (83.3%). The main education level is secondary school. Furthermore, the amount of money borrowed has an average of 6.632 Ghana Cedis (around € 3.000,-) and the interest rate has a mean of 3.7%. Another interesting finding is that the average level of all the business operations skills is higher than four, which should be the average score. This is because, although the respondents have been triggered to take the average of four in mind, there still was a tendency for over grading. However, since this happened for each skill, this will not change the quality of the data. The skills that were graded highest are mainly the customer relations skills, where especially “maintaining good customer relations” was clearly higher than the other skills (6.03 out of 7). Finally, the net profit margin has an average of 20.9% and this is 46.2% for the asset turnover ratio.

Furthermore, interesting to state is that 61% of the respondents are active in the retail sector where many own a place at the market. However, also the selling of construction products (cement etc.) and pharmaceutical products is common in this sample. It is most common for a small business is to employ two to three people which account for the half of the sample size. This is mainly the case in the retail sector where especially market salesmen do not need more than this amount of employees. Striking as well is that around 70% of the respondents had no experience in the industry at start-up. A similar pattern can be found concerning management experience. A final remark can be made concerning the motivation for applying for microcredit. In many cases this is done for purchasing stock or long-term assets, where a car is most common.

When taking a closer look at these variables, it becomes possible to calculate the relationship between the predictors and the company performance. For this analysis, the net profit margin has been used. This has been chosen for, since it represents the largest sample size and it accounts for the largest part of the generalizability of the data. More detailed information about this will be given later on in this chapter.

### 5.1.4 Factor analysis

The main focus of this research has been on business operations skills of the entrepreneurs. Since the research of Smith and Perks (2006) and SEDA (2009) has been used for the operationalization, their categorization of these skills has been used also. A factor analysis has been performed to check whether the categorization which these researches have used is a solid one for this research also. A factor analysis shows “whether the correlations between a set of observed variables stem from their relationship to one or more latent variables in the data” (Field, 2009). Based on the criterion “Eigenvalue > 1”, six components will be constructed. Table 2 shows the variables per component that show high correlations in the rotated analysis. All values over 0.4 have been selected. In the cases that a variable

scores higher than 0.4 for two components, it will be distributed to the component where the score is the highest.

**Table 2: Factor analysis of the Business Operations Skills**

<b>Rotated Component Matrix<sup>a</sup></b>						
	Component					
	1	2	3	4	5	6
Bookkeeping	.879					
Filing	.721					
Calculating performance	.545					
Customer relations		.825				
Generating new customers		.716				
Understanding customer needs		.637				
Handling employees			.789			
Employee procedures			.616			
Product quality		.427	.572			
Inventory control	.463		.556			
Short term planning				.783		
Extra sources of income				.666		.406
Budgeting				.501		
Security					.770	
Attracting employees					.635	
Creditworthiness						.800

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 12 iterations.

As can be seen, the six groups clearly differ from the categorization used by Smith and Perks (2006). Their grouping will thus not be used in this research anymore. Using the factor analysis, the groups can now be divided into “administrative skills”, “customer relations skills”, “employee relations skills”, “planning skills”, “security skills” and “creditworthiness skills”. Where the distribution of the largest part of the variables is rather logical, some of them need further explanation. Ensuring product quality and inventory control are placed under employee relations skills which might seem strange. However, as the quality of the products is mainly reliant on the people that produce them, the employees, this seems correct. And also the appearance of inventory control can be explained. As will be elaborated on in the analysis of the interviews with the loan officers, inventory control plays an important role in avoiding theft. This is mainly applicable to theft by the employees itself. Also the entrepreneurs themselves stated that this was an important issue. Employee relations can hereby help to keep the loss because of theft low and thereby controlling the inventory level. Finally, in the security skills grouping, attracting

employees can be found. Again, many respondents claimed that their main assessment of which employee to hire contains a prediction on the reliability of this person. Since theft does happen, the attracting of reliable employees has a close relation to maintaining a good security level.

With the use of the results of the factor analysis, the different components will be used as input in the analysis. Therefore, the individual skills have now been transformed into constructs that cover more aspects than these individual skills alone.

### 5.1.5 Regression analysis

For analyzing the relationships between the different independent variables (situational characteristics, human capital and business operations skills) and the dependent variable (net profit margin), SPSS has been used. For this, a three step hierarchical regression has been performed. In the first step, we tested the control variables. The second step was the adding of the different business operational skills constructs which were created during the factor analysis. Since adding these six groups had a significant impact on the results of the analysis, their addition is relevant. Finally, interactions between the different variables has been searched for. Using interactions, possible relations between control variables and the business operations skills are searched for. The relation between the amount of employees and employee relations skills has been subject to investigation. Also customer relations skills and the different business sectors could create a relation. Therefore also an interaction between this construct and retail and service has been added.

Since this research is the first that uses SPSS to analyze this theoretical model, the true relationships aren't yet known. Therefore, stepwise regression is more appropriate, where the backward method has been used. In this analysis the predictors are removed that don't make a statistically significant contribution to the outcome variable (Field, 2009). With the use of this method more information becomes evident. As a robustness check, also the forward method has been used which works the other way around. Since the business operations skills are the main focus of this research, these variables have been added with the use of the enter method.

The model summary shows that an R Square of 0.276 and an Adjusted R Square of 0.188 has been calculated. The  $R^2$  states how much of the variability in the outcome is accounted for by the predictors, the adjusted  $R^2$  how well the model generalizes and the significance of the F-change shows whether the change caused by the model is statistically different from zero (Field, 2009). As can be seen, the model shows a significant change (0.001). Therefore, it can be stated that the results of this research can be used for conclusions concerning the relationship between the business operations skills and company performance.

The output of the regression analysis using the stepwise method showed the same results as with the use of the forward method, showing the robustness of the model. The results show that no human capital variables are left for analysis. From the situational characteristics, only retail as a business sector shows to have an impact. Although the interest rate is shown as well, this relation is not significant. Since the different business operations skills constructs have been added using the enter method, also the non-significant ones are shown in the output. Here it can be seen that planning skills and

creditworthiness skills proved to have a significant effect on the net profit margin, where the latter one has a negative value. Although the interaction variables have been added to the model as well, none of these shows to have a significant relation. Therefore, their contribution to the model can be neglected. The exact impact of each of the independent variables on the net profit margin is shown in Table 3.

**Table 3: Results of multiple regression analysis**

	Model 1	Model 2	Model 3	Model 4
(Constant)	-1.505 (.000) ***	-3.469 (.001) ***	-3.332 (.001) ***	-3.223 (.001) ***
<b>Situational Characteristics</b>				
Retail	-.382 (.001) ***	-.391 (.000) ***	-.372 (.001) ***	-.358 (.001) ***
Interest (ln-value)		1.499 (.046) **	1.386 (.057) *	1.291 (.082) *
<b>Business Operations Skills</b>				
Administration Skills			.009 (.858)	.000 (.995)
Customer Relations Skills			-.006 (.899)	.109 (.274)
Employee Relations Skills			.007 (.893)	.006 (.929)
Planning Skills			.115 (.025) **	.114 (.039) **
Security Skills			-.042 (.421)	-.028 (.603)
Creditworthiness Skills			-.143 (.006) *	-.154 (.005) ***
<b>Interactions</b>				
Retail * Customer Relations Skills				-.185 (.138)
Service * Customer Relations Skills				-.070 (.697)
Nr. of Employees * Employee Relations				.028 (.698)

Skills				
R <sup>2</sup>	.110	.146	.276	.276
R <sup>2</sup> adjusted	.102	.128	.193	.188
F-stat	12.418	4.074	2.316	.810
Sign F stat	0.001 ***	.046 *	.040 *	.492

\*\*\* = p<0.01, \*\* = p<0.05, \* = p<.1

An equation can be derived from this which can be stated as follows:

$$NPM = -3.223 - 0.358 \text{ Retail} + 0.114 \text{ Planning skills} - 0.154 \text{ Creditworthiness skills}$$

### 5.1.6 Conclusion

This chapter discussed the analysis that has been created using SPSS concerning the situational characteristics, human capital of the entrepreneur and especially their business operations skills. Regression analyses proved to be a useful method to assess their relationship with company performance. The human capital of the entrepreneur showed to have no influence on the net profit margin, where of the situational characteristics, only the retail as a business sector proved to have an impact on company performance. Using the net profit margin as performance measurement, it became clear that not all the business operations skills showed to be of importance. Six constructs have been created, where only the planning skills and creditworthiness skills were influential. The other four showed no significant impact. Finally, no significant interactions were found between the different variables in the model.

## 5.2 Interviews MFI's

### 5.2.1 Introduction

To be able to create an overall idea of the business operations skills of microcredit clients, the loan officers have been interviewed concerning this topic. For this analysis, loan officers of the microfinance institutions (MFI's) Express Savings and Loans Company Limited, HFC Bank, Opportunity International, ProCredit and uniCredit have been used. Because of the delicate topic for these MFI's, anonymity was requested. Therefore, no quotes have been used. All the information which is presented in this chapter however, is being generated by using their answers. This knowledge will create an oversight of the perception of the providers of microcredit concerning the business operations skills of microcredit clients.

### 5.2.2 Business operations skills

#### Short-term planning

Overall, it was stated that short-term planning is often done by the microcredit clients. However, this consists more of routines than actual planning. Also, this considers mainly daily and weekly aspects and neglects the longer terms. The lack of planning skills has a great impact on the company performance

since important actions might not have been taken for the (near) future, but also because they will not be able to cope with unforeseen circumstances.

### **Budgeting**

The microcredit clients don't use formal systems, but have their own way of budgeting. There is no consensus among the loan officers about whether microcredit clients are consciously budgeting, but they do agree that this will mainly be short-term. Furthermore, the budgeting will relate to a certain transaction only and no other aspects of the company. In the case of applying for a loan, they will have an idea how the money will be used. However, since these predictions don't contain everything, some costs will be excluded which can lead to a lower profit or even a loss.

### **Ensuring the high quality of the product**

The emphasis that is placed on ensuring the high quality depends greatly on the kind of business. Often, the same suppliers have been used for years which enable them to assess the quality of the products easily. Because of the high experience of the microcredit client, a good quality assessment is easily made. However, there remains uncertainty about the products since the quality of the suppliers might be low in several occasions. It might be necessary to still buy these products. This kind of low quality products will result in lower sales. Especially because a large amount of the clients are into the provision of food for which the customers demand high quality.

### **Handling security**

The possibility for a good security system depends on the size of the company. Watchmen are often used at night, but because the relatively large amount of money involved, this will only be possible for the small businesses when they pay for it together. Typical ways of storing products is by storing it at home. Overall, it can be stated that the microcredit clients are aware of the importance of security and will therefore take actions to prevent this. This also resulted in a low amount of reports of theft or damaged goods. If this does happen, the impact for the business can be dramatic since the working capital will be gone.

### **Inventory control**

In most cases stock records are not used. They will rely mainly on judgment concerning the level of the inventory. This is not systematically done, but happens by taking a look from time to time at the amount of products still present in the shop. Although no systems are used for inventory control it is in most cases noticed when the level is low. Therefore a shortage of stock does not happen often. Such a shortage can lead to losing customers to competition. More problematic, because of the lack of stock records, the microcredit clients will not be aware of products being stolen. This is often systematically done by the employees and creates a big loss.

### **Filing**

There is no filing being performed by the microcredit clients. They don't think this is important, so invoices etc. will be thrown away. Since the businesses don't use formal ways of calculating company performance, there is no need to file. The only case where filing is being performed is when applying for loans, because this is demanded by the MFI's. However, after receiving the money, they will stop filing.

### **Bookkeeping**

Most clients don't do bookkeeping, but a fair amount does. It mostly consists of writing down the financial transactions concerning the buying and selling of the goods. Many aspects are forgotten and it might not be performed regularly. A good bookkeeping system is important since it enables them to make a better judgment concerning their expenditures and income. Now it's in most cases just estimates. Also, bookkeeping will enable the business owners to make a distinction between personal and business costs.

### **Calculating company performance**

The skill-level of calculating company performance is very low. Most calculations are only made on a daily basis and will consist only of the difference between the purchase price and the selling price. Fixed costs and other variable costs are not used. The impact of this is high, because they will not be aware of possible bottlenecks in their business. Systematic losses will not be noticed which eventually will lead to a bankruptcy.

### **Guaranteeing creditworthiness of buyers**

Providing credit to their customers depends on judgment and an assessment of past transactions with this business. Only a small amount of businesses sell on credit and this service will only be provided to the best clients. Because the importance of guaranteeing the creditworthiness of buyers is acknowledged, measures are taken and the payback rate is therefore good. In the case of a non-paying customer, the impact for the microcredit client can be high. This is especially the case for businesses with an undiversified set of customers.

### **Generating extra sources of income**

Extra sources of income are most often achieved through a loan which in most cases will be a MFI. The character of the applier doesn't have a large influence. However, the sales records and collateral does. If these are in order, a loan will be easily given. Furthermore, many different MFI's are present which can provide the loan. Whether a person is able to receive the loan will define the ability to expand the business. Money will be needed to make investments. A drawback has been stated being that the extra sources of income are often used for personal costs which jeopardize the business.

### **Handling employees**

There is no uniformity in the skill-level of stimulating employees. Many microcredit clients don't do this at all, but many others do. However, there are many problems that are being faced. A major problem is theft by employees. This depends for a big part on the relationship between the employer and the

employee. According to the loan officers, the biggest impact of a bad handling of employees is the rise in theft and a lower productivity.

### **Creating and living up to employee procedures**

For most of the jobs the procedures are straightforward and simple. Therefore, the influence of the microcredit client on this is limited. Only in unforeseen circumstances where the business owner is not able to be at the shop itself, problems will arise when the employees are not instructed well.

### **Attracting quality employees**

In most cases, there is no real selection procedure to generate high quality employees. Instead of this, family and friends are hired. Because they often don't have the right qualities, it will have a negative influence on the performance of the company. In the cases that other people than family or friends are hired, referrals are used. In the latter case it's also easier to fire them in the case of non-functioning.

### **Generating new customers**

Advertisements are not used. All new customers are generated by either referrals or by talking to them on the street. By being friendly to these possible customers and helping them, they will enable not only a single buy, but also following ones and referrals. The microcredit clients are very aware of this and are good in attracting new customers in this way. The impact of this skill is large, where a low skill-level will result in a declining numbers of customers.

### **Maintaining good customer relations**

As is the case for generating new customers, being friendly and helpful will positively impact customer relations and the number of sales. During the last couple of years, the attitude of trying to please the customers has changed. A monopoly-view where no effort is made in pleasing the customer has been changed into starting friendly relationships and offering discounts and free items to retain the customers. Although this didn't used to be necessary, this is now acknowledged so they will go the extra mile for the customers. Although this is not the case for all of them, the majority does.

### **Understanding needs of customers**

The microcredit clients will always try to have the products in stock that the customers want. Through experience they also know what kinds of products are requested a lot. If they do not have a certain product, they will make sure they will have it the next time. Not having the right products will have a loss in customers as a result.

### **Other aspects**

Where the business operations skills have an impact on the performance of a company, there are also others aspects that play a role and which were stated by the loan officers. Understanding the difference between personal and business spending has already been mentioned, but received extra emphasis in several interviews. Also the importance of training was acknowledged by the loan officers. An addition

that has been given concerning this topic is that microcredit clients depend on their loan officers for advice. This means that a part of the training is being given by the MFI itself through their employees. Record keeping has been stated as being the most necessary to aspect for training. Although training is important, it was also stated that the formal systems of running a business isn't always successful for these small entrepreneurs. Their educational level has an average of around Junior High and many are illiterates, so they have their own, informal ways which also works. But still, more knowledge might give the business "an extra push."

### 5.2.3 Conclusion

This chapter elaborated on the perception of the loan officers of different MFI's about the business operations skills of microcredit clients. They stated several skills which were believed to be strong. The results of their grading can be found in Table 4. Especially the customer relations-skills are valued highly. On the negative side, record-keeping proves to be a big problem. The impact of unforeseen circumstances can be high which is even more facilitated in the cases of low skills for planning, the calculation of company performances and creating employee procedures. Theft of products by the employees is an issue also and can be countered by strong interpersonal relations skills and an inventory control system. Another problem is the inability to make a distinction between personal and business costs which is enforced by low skills in budgeting and, contrastingly, a high skill-level in generating extra sources of income. In relation to the low scores for record-keeping it should be stated that the microcredit clients often have other systems which take care of these aspects of running a business. However, these are often inaccurate or wrong. In the case of filing, the impact is small, but for inventory control and calculating company performance this is not the case.

*Table 4: Average skill-levels microcredit clients as stated by loan officers MFI's.*

	<b>Gen. Business Management</b>	<b>Record-keeping</b>	<b>Financial Management</b>	<b>Interpersonal Relation</b>	<b>Customer Relations</b>
<b>1</b>	3.6	4.4	4.6	4	5.2
<b>2</b>	3.2	1.8	4.8	5.4	5.2
<b>3</b>	4.4	3		3.4	5.8
<b>4</b>	4.8	2.4			

### 5.3 Conclusion

Sub research question six stated: "What is the impact of business operations skills on the performance of microcredit clients in urban Ghana?" Now that the results of the surveys and interviews with loan officers have been presented it has become evident that business operations skills have an effect on company performance. This is however not the case for each of these skills. Furthermore, not all of the relationships that were named by the loan officers have been proven with the use of the information gathered with the surveys of the microcredit clients themselves. Still, the knowledge that this analysis provides will give opportunities for actions to enhance business performance.



## 6. Discussion and conclusion

### 6.1 Discussion

Now the results from both the SPSS-analyses and the interviews with the loan officers of the different MFI's (microfinance institutions) are known, these findings can be combined. Then with the use of the theory that has been elaborated on in chapter three, a discussion can be created which covers the implications of the findings as described in chapter five. With the use of the discussion of the results, the central research question will be answered, which has been stated as being: "What is the impact of business operations skills of microcredit clients in urban Ghana on the performance of their enterprises?" This chapter will conclude on this. Important to remind is that this research can state conclusions about microcredit clients in developing countries, but not about entrepreneurs as a whole since the choice for microcredit as a sample influences the results already.

This research is valuable since it relates the performance of the entrepreneurs with their business operations skills. The fact that financial records have been used to calculate this performance makes the research unique and provides a solid base where conclusions can be based upon. However, because the research has also been a rather novel one, several difficulties have been found also. These have influenced the results and therefore they need to be taken into mind when analysing the results. The two most important ones will be elaborated on shortly. The most obvious problem lies within the bias of the answers of the respondents. Since it involved a self-assessment, there is subjectivity and honesty that needs to be taken into account. Respondents might have felt the urge to proof the interviewer the high level of their skills which can result into a bias. Although this is taken care of by using the face-to-face method, this still proved to be a real problem since the average grade the respondents gave themselves was greatly above four. The second problem concerns the sample. The selection has been made by uniCredit since they allow only the good entrepreneurs to be their clients. However, this selection is based on the perception of uniCredit and already limits the sample to a small group. Therefore, this information cannot be generalized to entrepreneurs as a whole, but only to the group of microcredit clients.

Several financial ratios have been used to describe the company performance of the different microcredit clients. Emphasis herein has been on the profitability ratios, being net profit margin, return on equity and return on assets. However, the models in SPSS showed that the latter two are not useful for further analysis, with an adjusted  $R^2$  of zero which shows a complete lack of possible generalization. Furthermore, all business operations skills showed an insignificant effect on both these profitability ratios. Also the models of the asset turnover ratio and quick ratio proved to show too little results and were therefore also excluded from the analysis. Since the net profit margin did prove to be useful for generalization, this model is the main source of information to base conclusions upon. Finally, the interviews that have been performed with loan officers of MFI's will provide qualitative data that can back-up the quantitative data generated with the surveys.

Before discussing the actual results, it is of importance to discuss the relevance of using the categorization of the business operations skills by Smith and Perks (2006). The factor analysis which was performed shows that the grouping of the different business operations skills did not prove to be useful

for this research. Six constructs were created, being “administrative skills”, “customer relations skills”, “employee relations skills”, “planning skills”, “security skills” and “creditworthiness skills”. With the use of this categorization, the analysis in SPSS has been performed where thus these six constructs are implemented and not the sixteen business operations skills individually.

In the conceptual framework it was hypothesized that there would be positive relations between all the business operations skills and the company performance. This has however not been the case. Only relationships between the planning skills and creditworthiness skills were found, where the latter one is negative. This can be explained since not all entrepreneurs sell on credit. Individuals with low confidence concerning this skill will be less likely to sell on credit and will face lower risks. Having a high confidence in assessing the creditworthiness of the clients can thus result in the selling on credit to customers that are not able to pay for their expenses. This proved to be a common reason for bankruptcy where the entrepreneur believed that a social assessment would be sufficient to sell on credit. Therefore, it could happen that an assessment of the creditworthiness was made based on a ‘gut feeling’ judgment rather than on an analysis of the capability to pay back. Planning skills did prove to have a positive relation with net profit margin. As was hypothesized, the impact of these skills is eminent. The credit officers agree upon this and also graded these skills as one of the lowest of all business operations skills. It was often mentioned that micro-entrepreneurs make use of routines rather than planning. They stated that good planning systems will enable the entrepreneur to avoid mistakes and to cope better with unforeseen events. As can be read in sub-chapter 3.4.2, also literature states this effect of good planning skills. Taking above mentioned arguments into mind, it’s clear that literature, the loan officers and the SPSS outcomes are on one line, stating the relevance of these findings.

Where the above mentioned constructs showed a significant relationship with company performance, the other four didn’t. In the methodology, it was hypothesized that there would be a positive relationship between the different business operations skills and the company performance. Since this is not the case, there must be other elements of influence. In the theoretical review, it was already explained that Ghana has an institutional context that is improving in quality. However, it is not yet an optimal situation, which can easily have an impact on different aspects of running a business. An obvious example of this problem is the traffic situation in and around Accra where it can take over two hours to travel from east to west. Also the fact that some entrepreneurs are active in the informal sector, where others are in the formal sector, makes a difference for the profitability of these businesses. Not needing to pay taxes saves a great deal of costs. Therefore, it seems likely that these institutional elements affect the performance of the company in such a way that some of the business operations skills become less relevant. This can explain the lack of significant effect of these skills.

An aspect that was stated by most of the loan officers was the phenomenon that most of the microcredit clients are unable to make a difference between personal and business spending. It often occurred that business capital was used for, for example, a funeral, leaving the company with debts. Because this hasn’t been included in the model, it cannot be clearly stated what the influence is on the success of the business. However, it was stated that it influences several skills of which the planning skills showed a significant change. Therefore, it will be wise to put emphasis on this issue to avoid negative effects. Also the matter of unforeseen events has been mentioned by the loan officers which

also relates closely to the planning skills. It was stated that microcredit clients with low levels of several skills will be greatly affected by this. Although this effect hasn't been quantified in this research, this also creates interesting food for thought. Finally, it was stated by credit officers that in factor-driven economies some basic skills can be sufficient for existence, so providing advanced systems can lead to negative results.

Further interesting information that has been attained from the analyzed data is the lack of relationship between the human capital of the entrepreneur and its company performance. As was stated in the methodology, Sambasivan et al. (2010) did not find a relationship either. When combining this knowledge with the results of this study it can be questioned whether human capital will indeed boost profitability. Concerning the situational characteristics of the microcredit clients however, results were found. Entrepreneurs active in the retail sector showed to have a lower net profit margin than the ones operating in the service- and manufacturing sector.

A final interesting aspect of the generated data is the difference in skill-levels which is stated by the loan officers and the microcredit clients itself. As is shown in Table 5, the values can differ greatly. Filing (R2) is a good example of this, but also attracting quality employees shows different values. However, most of the values relate closely between these two groups, although at first sight this might not seem to be the case. But since the microcredit clients had a mean which was largely over the average of four, a closer look shows more relevance between the two. But still, the differences do show that this research uses self-assessment as a tool to quantify the data which is a rather subjective measurement. However, the answers did provide important information (as is elaborated on in this chapter), because the respondents did answer according to their knowledge of their own skills. This is reflected in the significant relationships that have been found.

**Table 5: Mean business operations skill-levels as stated by microcredit clients and loan officers**

	G1	G2	G3	G4	R1	R2	R3	R4	F1	F2	I1	I2	I3	C1	C2	C3
Respondents	4.78	4.56	5.72	5.08	5.00	4.78	4.55	4.26	5.01	4.79	5.64	5.28	5.09	5.55	6.03	5.57
Loan officers	3.6	3.2	4.4	4.8	4.4	1.8	3	2.4	4.6	4.8	4	5.4	3.4	5.2	5.2	5.8

## 6.2 Conclusions

The above described results allow the formulation of conclusions concerning the hypothesis of this research which was stated as: "The level of the business operations skills of the microcredit clients has a positive relationship with the company performance of their micro- and small businesses." Although the majority of the business operations skills were claimed to be of impact by the credit officers, this proved to be not the case in the SPSS analysis. From the six constructs, only two showed a significant impact of which creditworthiness skills showed a negative relationship. This can be explained since not all entrepreneurs sell on credit. Individuals with low confidence concerning this skill will be less likely to sell on credit and will face lower risks. Planning skills did prove to have a positive relation with net profit margin. As was hypothesized, the impact of these skills is eminent. The credit officers agree upon this and also graded these skills as one of the lowest of all business operations skills. Developing these skills

thus seems important to be able to deal with unforeseen events. Finally, retail as a business sector proved to be less profitable than service and manufacturing.

However, four out of six of the skills didn't prove to be significant. This might entail that the institutional context in Ghana influences the entrepreneurs' performance in such a way that several of these skills become less important. This does not seem strange since literature already showed the big impact of aspects like corruption and infrastructure. Furthermore, several loan officers stated that one of the major reasons for company default is handling with unforeseen events and the spending of company money for personal goals. Their impact makes the business operations skills relatively less relevant. Yet, still several skills showed their importance and literature, the loan officers and the entrepreneurs themselves stated that training would be helpful especially for these unforeseen happenings. Entrepreneurial training thus seems to be beneficial. As was shown in the literature study, skills can be enhanced by entrepreneurial training. And although little uniformity can be found concerning entrepreneurial education programs, it was proven that several aspects can be successfully taught.

Overall, it is proven that several skills do have an impact on company performance. Therefore it can be stated that it will be beneficial to focus on training these skills to the microcredit clients. However, for practical as well as theoretical implementation, an important statement should be taken into account, since this report showed the delicacy of the topic of business operations skills and entrepreneurial training. Situations will differ for each country, region and business sector and therefore this should be taken care of before starting a training program. A thorough assessment on the topics for training that is needed by the entrepreneurs will need to be performed. If this is known, a more focused training program will be possible to set-up. This inclines that a shift will need to be made by the MFI from microcredit to microfinance.

## 8. Recommendations

Research on this topic is very valuable and because this report shows a rather unique research set-up, much can be gained by further investigating this topic. However, some problems need to be overcome. The bias concerning the subjective nature of self-assessment can be countered by measuring knowledge rather than skills. Knowledge is one aspect of the KSA's (knowledge, skills, and abilities) and can therefore be useful. The advantage of knowledge over skills is that it can be more objectively measured as well as that there is no real need for a face-to-face method. This creates an opportunity for a larger dataset than was possible in this research.

Another recommendation concerns the sample. Although microcredit clients are an important group which is good to investigate, it's just a rather small part of the total entrepreneurial population. By using non-clients also, the group will be diversified. Generalization can then be performed for all entrepreneurs instead of just the microcredit clients. A problem that needs to be dealt with then is the measurement of company performance. The collaboration with uniCredit provided a great opportunity to calculate net profit margin. This information will be difficult to gather if there is no support from such a MFI. Focusing on one business sector might be helpful as well, to generate better comparable, financial data. Each sector has its own characteristics which will result in different net profit margins etc. This does however not mean that the company will indeed be less successful. When only researching one business sector, this problem will be overcome. The fact that business sector showed to have a significant impact on performance makes this argument stronger.

A complete different set-up of the research can result in different conclusions also. The most interesting opportunity would be to provide an intervention and measure the differences in business operations skills and company performance after a period of time. However, for such an approach more time and energy is needed for implementation than the approach this research used by measuring the variables at one point of time only. A clinical trial is then a serious option in a country such as Ghana.

This research focused on internal aspects that impact the performance of the microcredit client. Although it showed that this does have an influence, it is stated that also external aspects do influence the success of an entrepreneur. To get a better insight in the actual impact of these external influences, further research can be interesting. This creates a better understanding of the entrepreneurial success with a holistic view.

Practical recommendations for MFI's can also be provided with the use of this report. It was concluded that the concept of microfinance is preferable over microcredit. This thus means that energy should be placed in developing the business operations skills of the microcredit clients. It can be beneficial for both the client as the MFI to place attention to entrepreneurial training. However, this report also shows that this should be executed with great care, since the already existing systems of the microcredit clients have value also. Providing the wrong training might mess this up. Furthermore, it is not clear which business operations skills are the most important in which situation. This is also dependent on the institutional context. Therefore, a MFI should place attention in finding out which elements are of value in a training set-up before applying it to the clients. So first an assessment to find out the actual need of the target group should be performed. This will enable an effective training intervention.

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# Appendixes

## Appendix A: Output analysis descriptives

**Descriptive Statistics**

	Mean	Std. Deviation	N
Innet_prof	-1.7330	.56597	102
Sex	.43	.517	102
Parents_business_owners	.48	.502	102
Retail	.5980	.49272	102
Service	.2353	.42628	102
InAge	3.6861	.20348	102
InEmpl	1.0786	.82426	102
InComp	1.9447	.71783	102
InLoan	8.6103	.65227	102
InLoanlenght	1.9487	.49682	102
Industry_experience	2.69	5.323	102
Management_experience	3.01	5.755	102
Children_amount	2.43	1.452	102
InInter	1.3144	.07087	102
Administration Skills	.0000000	1.0000000	102
Customer Relations Skills	.0000000	1.0000000	102
Employee Relations Skills	.0000000	1.0000000	102
Planning Skills	.0000000	1.0000000	102
Security Skills	.0000000	1.0000000	102
Creditworthiness Skills	.0000000	1.0000000	102
RetCus	-.0066	.75339	102
SerCus	-.0340	.37224	102
EmpEmp	.1011	1.01023	102

**Sex**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	59	57.8	57.8	57.8
	Female	43	42.2	42.2	100.0
	Total	102	100.0	100.0	

**Marital status**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Married	85	83.3	83.3	83.3

In a relationship	2	2.0	2.0	85.3
Single	9	8.8	8.8	94.1
Divorced	4	3.9	3.9	98.0
Widow	2	2.0	2.0	100.0
Total	102	100.0	100.0	

#### Business sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Retail	61	59.8	59.8	59.8
	Service	24	23.5	23.5	83.3
	Manufacturing	17	16.7	16.7	100.0
	Total	102	100.0	100.0	

#### Other income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	32	31.4	31.4	31.4
	Yes	70	68.6	68.6	100.0
	Total	102	100.0	100.0	

**Paid back**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	12	11.8	11.8	11.8
	No	9	8.8	8.8	20.6
	N.a.	81	79.4	79.4	100.0
	Total	102	100.0	100.0	

**Education level**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	None	3	2.9	2.9	2.9
	Primary school	18	17.6	17.6	20.6
	Secondary school	59	57.8	57.8	78.4
	Tertiary	22	21.6	21.6	100.0
	Total	102	100.0	100.0	

**Parents business owners**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	53	52.0	52.0	52.0
	Yes	49	48.0	48.0	100.0
	Total	102	100.0	100.0	

## Appendix B: Output analysis situational characteristics

### Age

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.073 <sup>a</sup>	.005	-.005	.137107

a. Predictors: (Constant), Age

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.010	1	.010	.539	.465 <sup>a</sup>
	Residual	1.880	100	.019		
	Total	1.890	101			

a. Predictors: (Constant), Age

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.257	.067		3.846	.000
	Age	-.001	.002	-.073	-.734	.465

a. Dependent Variable: Net profit margin

### Sex

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.080 <sup>a</sup>	.006	-.004	.137033

a. Predictors: (Constant), Sex

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.012	1	.012	.647	.423 <sup>a</sup>
	Residual	1.878	100	.019		
	Total	1.890	101			

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.080 <sup>a</sup>	.006	-.004	.137033

a. Predictors: (Constant), Sex

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.218	.018		12.298	.000
	Sex	-.021	.026	-.080	-.804	.423

a. Dependent Variable: Net profit margin

### Marital status

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.263 <sup>a</sup>	.069	.031	.134658

a. Predictors: (Constant), Widow, In a relationship, Divorced, Single

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.131	4	.033	1.807	.134 <sup>a</sup>
	Residual	1.759	97	.018		
	Total	1.890	101			

a. Predictors: (Constant), Widow, In a relationship, Divorced, Single

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.206	.015		14.082	.000
	In a relationship	-.034	.096	-.035	-.355	.724
	Single	.098	.047	.203	2.066	.042

Divorced	-0.082	.069	-.118	-1.196	.234
Widow	-.092	.096	-.094	-.954	.343

a. Dependent Variable: Net profit margin

### Amount of children

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.051 <sup>a</sup>	.003	-.007	.137295

a. Predictors: (Constant), Children amount

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.005	1	.005	.263	.609 <sup>a</sup>
	Residual	1.885	100	.019		
	Total	1.890	101			

a. Predictors: (Constant), Children amount

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.220	.027		8.281	.000
	Children amount	-.005	.009	-.051	-.513	.609

a. Dependent Variable: Net profit margin

### Company age

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.096 <sup>a</sup>	.009	-.001	.136836

a. Predictors: (Constant), Company age

**ANOVA<sup>b</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
-------	----------------	----	-------------	---	------

1	Regression	.018	1	.018	.937	.335 <sup>a</sup>
	Residual	1.872	100	.019		
	Total	1.890	101			

a. Predictors: (Constant), Company age

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.228	.024		9.341	.000
	Company age	-.002	.002	-.096	-.968	.335

a. Dependent Variable: Net profit margin

### *Amount of employees*

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.207 <sup>a</sup>	.043	.033	.134501

a. Predictors: (Constant), Employee amount

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.081	1	.081	4.472	.037 <sup>a</sup>
	Residual	1.809	100	.018		
	Total	1.890	101			

a. Predictors: (Constant), Employee amount

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.182	.018		9.941	.000
	Employee amount	.006	.003	.207	2.115	.037

a. Dependent Variable: Net profit margin

### Amount of loan

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.099 <sup>a</sup>	.010	.000	.136795

a. Predictors: (Constant), Loan amount

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.019	1	.019	.998	.320 <sup>a</sup>
	Residual	1.871	100	.019		
	Total	1.890	101			

a. Predictors: (Constant), Loan amount

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.232	.027		8.583	.000
	Loan amount	-3.522E-6	.000	-.099	-.999	.320

a. Dependent Variable: Net profit margin

### Interest rate

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.193 <sup>a</sup>	.037	.028	.134882

a. Predictors: (Constant), Interest rate

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.071	1	.071	3.882	.052 <sup>a</sup>
	Residual	1.819	100	.018		
	Total	1.890	101			

a. Predictors: (Constant), Interest rate

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.180	.198		-.910	.365
	Interest rate	.104	.053	.193	1.970	.052

a. Dependent Variable: Net profit margin

### *Business sector*

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.344 <sup>a</sup>	.119	.101	.129715

a. Predictors: (Constant), Manufacturing, Service

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.224	2	.112	6.662	.002 <sup>a</sup>
	Residual	1.666	99	.017		
	Total	1.890	101			

a. Predictors: (Constant), Manufacturing, Service

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.173	.017		10.427	.000
	Service	.112	.031	.350	3.593	.001
	Manufacturing	.054	.036	.147	1.513	.133

a. Dependent Variable: Net profit margin

### Other income

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.216 <sup>a</sup>	.047	.037	.134231

a. Predictors: (Constant), Other income

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.088	1	.088	4.893	.029 <sup>a</sup>
	Residual	1.802	100	.018		
	Total	1.890	101			

a. Predictors: (Constant), Other income

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.252	.024		10.623	.000
	Other income	-.063	.029	-.216	-2.212	.029

a. Dependent Variable: Net profit margin

### Loan length

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.174 <sup>a</sup>	.030	.021	.135383

a. Predictors: (Constant), Loan length

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.057	1	.057	3.115	.081 <sup>a</sup>
	Residual	1.833	100	.018		
	Total	1.890	101			

a. Predictors: (Constant), Loan length

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.153	.034		4.463	.000
	Loan length	.007	.004	.174	1.765	.081

a. Dependent Variable: Net profit margin

### *Paid back*

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.079 <sup>a</sup>	.006	-.014	.137737

a. Predictors: (Constant), Na, No

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.012	2	.006	.311	.734 <sup>a</sup>
	Residual	1.878	99	.019		
	Total	1.890	101			

a. Predictors: (Constant), Na, No

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.187	.040		4.691	.000
	No	.048	.061	.099	.786	.434
	Na	.022	.043	.067	.528	.599

a. Dependent Variable: Net profit margin

## Appendix C: Output analysis Human capital entrepreneur

### Education level

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.138 <sup>a</sup>	.019	-.011	.137548

a. Predictors: (Constant), Tertiary, None, Primary

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.036	3	.012	.632	.596 <sup>a</sup>
	Residual	1.854	98	.019		
	Total	1.890	101			

a. Predictors: (Constant), Tertiary, None, Primary

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.208	.018		11.623	.000
	None	-.038	.081	-.047	-.465	.643
	Primary	-.027	.037	-.075	-.723	.471
	Tertiary	.029	.034	.088	.847	.399

a. Dependent Variable: Net profit margin

### Experience in the industry

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.053 <sup>a</sup>	.003	-.007	.137282

a. Predictors: (Constant), Industry experience

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.005	1	.005	.283	.596 <sup>a</sup>
	Residual	1.885	100	.019		
	Total	1.890	101			

a. Predictors: (Constant), Industry experience

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.205	.015		13.445	.000
	Industry experience	.001	.003	.053	.532	.596

a. Dependent Variable: Net profit margin

### Management experience

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.035 <sup>a</sup>	.001	-.009	.137390

a. Predictors: (Constant), Management experience

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	1	.002	.124	.725 <sup>a</sup>
	Residual	1.888	100	.019		
	Total	1.890	101			

a. Predictors: (Constant), Management experience

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.211	.015		13.736	.000
	Management experience	-.001	.002	-.035	-.353	.725

a. Dependent Variable: Net profit margin

### Age at start-up

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.001 <sup>a</sup>	.000	-.010	.137709

a. Predictors: (Constant), Age at startup

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	1	.000	.000	.990 <sup>a</sup>
	Residual	1.877	99	.019		
	Total	1.877	100			

a. Predictors: (Constant), Age at startup

b. Dependent Variable: Net profit margin

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.208	.056		3.713	.000
	Age at startup	-2.178E-5	.002	-.001	-.013	.990

a. Dependent Variable: Net profit margin

### *Parents business owners*

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.068 <sup>a</sup>	.005	-.005	.137159

a. Predictors: (Constant), Parents business owners

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.217	.019		11.543	.000
	Parents business owners	-.018	.027	-.068	-.681	.498

a. Dependent Variable: Net profit margin

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.009	1	.009	.463	.498 <sup>a</sup>
	Residual	1.881	100	.019		
	Total	1.890	101			

a. Predictors: (Constant), Parents business owners

b. Dependent Variable: Net profit margin

## Appendix D: Output analysis Net profit margin

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.505	.084		-17.960	
	Retail	-.382	.108	-.332	-3.524	
2	(Constant)	-3.469	.977		-3.552	
	Retail	-.391	.107	-.340	-3.658	
	InInter	1.499	.743	.188	2.018	
3	(Constant)	-3.332	.946		-3.524	
	Retail	-.372	.106	-.324	-3.509	
	InInter	1.386	.719	.174	1.926	
	Administrative Skills	.009	.051	.016	.179	
	Customer Relations Skills	-.006	.051	-.011	-.127	
	Employee Relations Skills	.007	.051	.012	.135	
	Planning Skills	.115	.051	.204	2.277	
	Security Skills	-.042	.052	-.074	-.808	
	Creditworthiness Skills	-.143	.051	-.253	-2.811	
4	(Constant)	-3.223	.965		-3.340	
	Retail	-.358	.109	-.312	-3.298	
	InInter	1.291	.733	.162	1.761	
	Administrative Skills	.000	.051	-.001	-.007	
	Customer Relations Skills	.109	.099	.193	1.101	
	Employee Relations Skills	.006	.071	.011	.090	
	Planning Skills	.114	.054	.201	2.099	
	Security Skills	-.028	.053	-.049	-.522	
	Creditworthiness Skills	-.154	.054	-.272	-2.873	
	RetCus	-.185	.124	-.246	-1.495	
	SerCus	-.070	.180	-.046	-.390	
	EmpEmp	.028	.073	.051	.389	

a. Dependent Variable: Innet\_prof

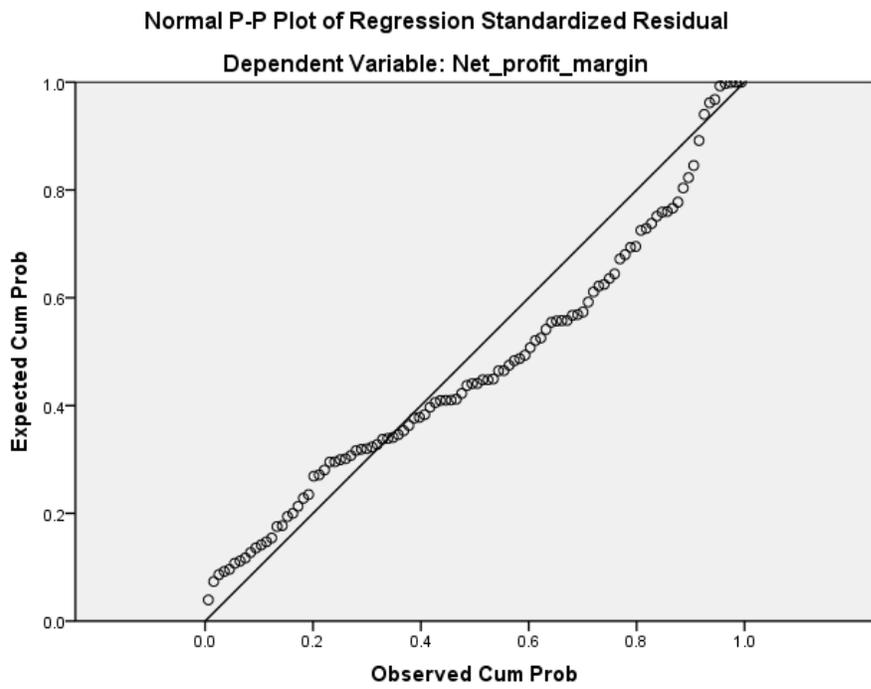
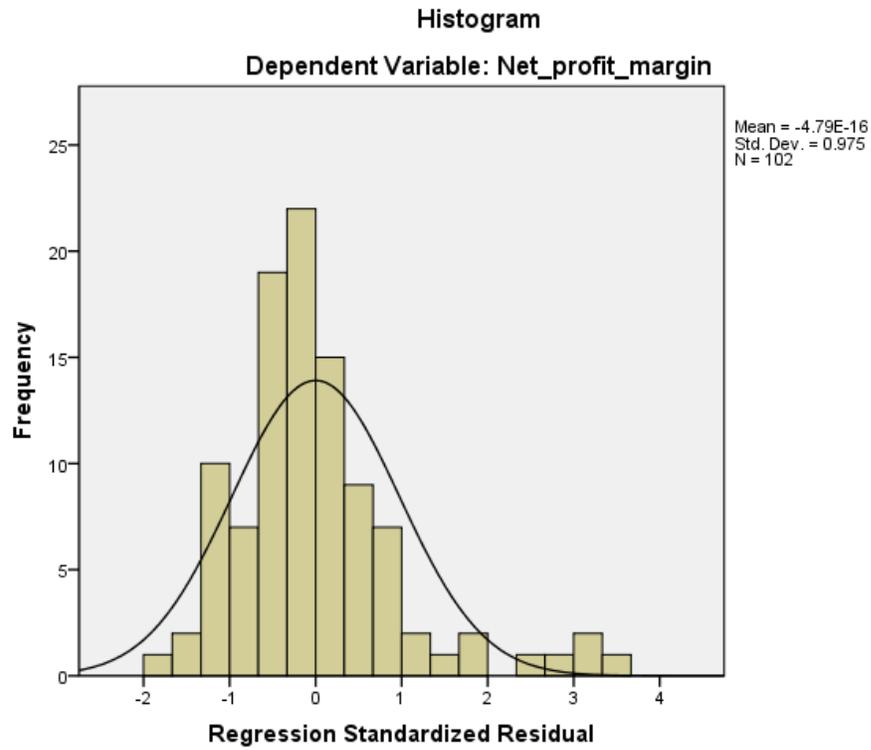
Model Summary

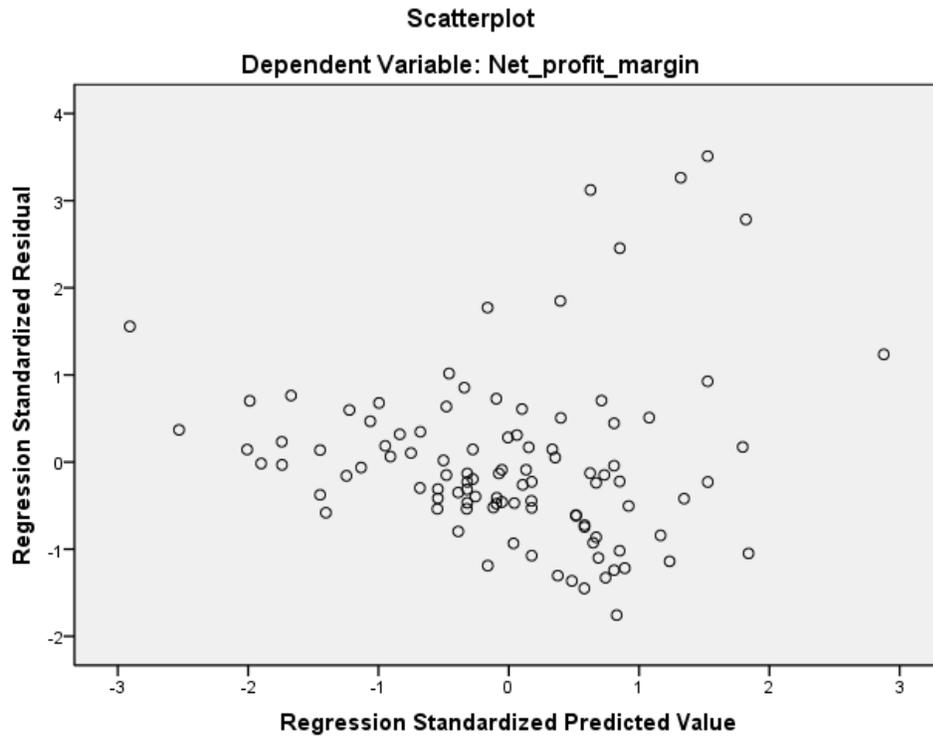
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df
1	.332 <sup>a</sup>	.110	.102	.53646	.110	12.418	
2	.382 <sup>b</sup>	.146	.128	.52840	.035	4.074	
3	.507 <sup>c</sup>	.257	.193	.50851	.111	2.316	
4	.526 <sup>d</sup>	.276	.188	.51007	.020	.810	

a. Predictors: (Constant), Retail











## Appendix E: Survey microcredit clients

*Thank you for cooperating with this interview. This interview will be performed since I am investigating the skill-level of micro and small entrepreneurs in Ghana. The information from your answers will be very important for my research of which the goal is to provide microfinance institutions with knowledge upon which training programs can be created or altered. This information will not be shared with the bank, so I will be the only who knows your personal skill levels. So this will have no effect on your relation with UniCredit.*

### **Situational characteristics**

#### **Name:**

**B1:** What is your age? ...

**B2:** What is your gender? M / F

**B3:** What is your marital status? Married / in a relationship / single / divorced / widow

**B4:** Do you have children? If yes; how many?

**B5:** When did you start-up the company? (age at that time)

**B6:** How many employees do you have?

**B7:** How much microcredit did you receive?

**B8:** What was the interest rate of this loan?

**B9:** When did you receive the money from the microcredit?

**B10:** What business are you in?

**B11:** Do you have any other income?

**B12:** What is the duration of your loan?

**B13:** Were you able to pay back the loan?

### **Human capital entrepreneur**

**H1:** What is the level of education that you have obtained? (primary school, secondary school, tertiary education)

**H2:** How many years of experience in this industry did you possess before the start-up of your company?

**H3:** How many years of management experience did you possess before the start up of your company?

**H4:** What was your age when you started managing this firm?

**H5:** Do / did your parents have a company?

*We will perform a self-assessment where I will mention the different skills and you will state how good you are in each skill. It's not bad at all when you're not good in one skill. You could be very good in one skill and bad in another. Could you please state as honest as possible what your skill-level is of the following aspects?*

### **General Business Management**

**G1:** How would you assess your skills concerning short-term planning?

*Deciding on forehand which actions need to be taken for the next days/weeks/month.*

**G2:** How would you assess your skills concerning budgeting?

*Anticipating which costs need to be made in the upcoming months to be able to run the business.*

**G3:** How would you assess your skills concerning ensuring the high quality of the product?

*Trying actively to increase the quality of the produced product.*

**G4:** How would you assess your skills concerning handling security?

*Keeping the products and business belongings safe.*

## **Record-keeping**

**R1:** How would you assess your skills concerning inventory control?

*Recording all incoming and outgoing stock and stock in the storage room.*

**R2:** How would you assess your skills concerning filing?

*Creating a system in the records of the company so that documents will be easily accessible.*

**R3:** How would you assess your skills concerning bookkeeping?

*Stating all financial transactions applicable to the business in a clear way.*

**R4:** How would you assess your skills concerning calculating company performance?

*Calculating periodic costs, income, profit, value of company belongings etc.*

## **Financial Management**

**F1:** How would you assess your skills concerning guaranteeing the creditworthiness of buyers?

*Ensuring that buyers will live up to their payment duties.*

**F2:** How would you assess your skills concerning generating extra sources of finance?

*Trying to generate extra (short-term) money from investors (banks, suppliers, family etc.).*

## **Interpersonal relations**

**I1:** How would you assess your skills concerning handling your employees?

*Keeping good contact with employees and stimulating them to be productive.*

**I2:** How would you assess your skills concerning creating and the living up to employee procedures?

*Creating work procedures for employees and making sure that these are executed.*

**I3:** How would you assess your skills concerning attracting quality employees?

*Attracting and selecting high quality employees for the company.*

## **Customer relations**

**C1:** How would you assess your skills concerning generating new customers?

*Performing effort to obtain new customers.*

**C2:** How would you assess your skills concerning maintaining good customer relations?

*Performing actions/behavior to remain a good relationship with the customer.*

**C3:** How would you assess your skills concerning understanding the needs of customers?

*Knowing what the customer wants and acting to this.*

## Appendix F: Interview loan officers MFI's

### Situational characteristics

Date:

Company:

Name:

Age:

Gender:

Profession:

Years of experience:

***All the questions below concern the skill-level of microcredit clients of the described concept.***

**General Business Management**

**G1:** How do you perceive the skill-level of short-term planning?

How does this influence the performance?

**G2:** How do you perceive the skill-level of budgeting?

How does this influence the performance?

**G3:** How do you perceive the skill-level of ensuring the quality of the products?

How does this influence the performance?

**G4:** How do you perceive the skill-level of handling security?

How does this influence the performance?

**Record-keeping**

**R1:** How do you perceive the skill-level of inventory control?

How does this influence the performance?

**R2:** How do you perceive the skill-level of filing?

How does this influence the performance?

**R3:** How do you perceive the skill-level of bookkeeping?

How does this influence the performance?

**R4:** How do you perceive the skill-level of calculating company performance using financial records?

How does this influence the performance?

### **Financial Management:**

**F1:** How do you perceive the skill-level of guaranteeing the creditworthiness of buyers?

How does this influence the performance?

**F2:** How do you perceive the skill-level of generating extra sources of finance?

How does this influence the performance?

### **Interpersonal relations**

**I1:** How do you perceive the skill-level of handling employees?

How does this influence the performance?

**I2:** How do you perceive the skill-level of creating and the living up to employee procedures?

How does this influence the performance?

**I3:** How do you perceive the skill-level of attracting quality employees?

How does this influence the performance?

### **Customer Relations**

**C1:** How do you perceive the skill-level of generating new customers?

How does this influence the performance?

**C2:** How do you perceive the skill-level of maintaining good customer relations?

How does this influence the performance?

**C3:** How do you perceive the skill-level of understanding the needs of customers?

How does this influence the performance?

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