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THE INFLUENCE OF FUNDS ON THE ORGANIZATIONAL PERFORMANCE OF SMES IN THE TAMALE METROPOLIS OF GHANA

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Abstract
Small and medium enterprises (SMEs) are critical to the economy's and industry's overall growth. However, in the long run, funding will be required to improve their performance, necessitating the need to fund their operations. This paper examined SMEs access to funds to finance their businesses and its effect on their performance in Tamale Metropolis. A Quantitative approach was used, and questionnaires were administered. The research data were collected from 92 respondents through a simple random sample technique. Descriptive and inferential statistics were used to analyzed. The study found that the main source of funding for SMEs in the Tamale metropolis in Northern Ghana are: self, family and friends; funds sourced from these sources to a large extent did not have much effect on the performance of the SMEs. To enhance the SMEs opportunities to access funds from financial institutions, there is the need for trainings, workshops on business registrations, and entrepreneurship skills building. This will make them more attractive to financial agencies to lend them money to finance their businesses.

Research paper

Keywords: Funds; Small and Medium Scale Enterprise; SMEs Performance; Ghana

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Introduction

It is indisputable that access to funds is the live blood of SMEs in the business environment (Di Giminiani, 2018). In view of this, there is a growing body of recognition in academic research about the significant contributions of Small and Medium Enterprises (SMEs) in economic development (Sulemana, 2014; Kamunge et al., 2014; Wangmo, 2016). In the western industrialized economies, the SMEs sector serves as the largest employer of workers rather than the multinationals (Bagale et al., 2021). In the developed world, small firms are the engines for the economic development of several countries, such as the US and Japan (Quainoo, 2011). In developing economies, particularly in Africa, the SMEs sub-sector accounts for almost 90% of all the enterprises, which are located in both the rural and urban settings, which seeks to provide more equitable distribution of income in all areas of the economy (Prempeh, 2015). Thus, SMEs have been considered an important sector for achieving national development goals, such as poverty reduction and economic growth. Literature on this subject suggests that better financial access for SMEs contributes to economic growth, reduced income inequality and reduced poverty (World Bank, 2008; Levine 2005; Rajan and Zingales 1998; Townsend and Ueda, 2003).

In the context of Ghana, existing data reveals that about 90% of companies registered are micro, small and medium enterprises (Mensah, 2004 cited in Quainoo, 2011). This target group has been identified as the catalyst for the country's economic growth as they are a major source of income and employment to many Ghanaians.

Hallberg (2001) in Quainoo (2011) also asserted that SMEs account for the majority of firms in an economy and a significant share of employment. Like other countries of the world, SMEs in Ghana tend to serve as sources of livelihood to the poor, create employment opportunities, generate income and contribute immensely to economic growth. Data from the Ghana Export Promotion Council (GEPC,2008) in Quainoo (2011) revealed that SMEs in Ghana perform a strategic role by accounting for 95 per cent of the total number of business establishments as this contributes substantially to employment and income generation. Small and medium businesses (SMEs) are now often regarded as the most important source of vibrancy, innovation, and flexibility in emerging and developing economies, as well as in most countries' economies. They contribute substantially to economic development and employment generation (Armstrong, 2021). Small and medium enterprises (SMEs) are a potential economic backbone for many districts, contributing significantly more to employment than huge corporations (Chin et al., 2012). But Small and medium enterprises (SMEs) in developing countries suffer a financing gap Beck & Demirguc-Kunt, 2006; Dube, 2013).

Finance is probably among the greatest challenge to small and medium enterprises (SMEs) in upscaling financial performance and competitiveness in Northern Ghana. In addition, Abor and Quartey (2010) noted in Ghana, small and medium enterprises development is hampered by a number of factors, including finance, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets. Hence the lack of managerial know-how places significant constraints on small and medium enterprises development.

Recently, a growing body of studies has added that many SMEs in developing countries like Ghana are stifled by a myriad of problems, particularly with regard to access to funds which culminates in many of them failing to grow and expand (World Bank, n.d, Prempeh, 2015, Sibanda et al., 2018). This circumstance has become a challenge for SMEs to grow and improve their firms as banks and other lending organizations evaluate their financial doing before engaging in business with them (Quaye et al., 2014). The limited empirical studies on Ghana finance, particularly the organizational performance of small and medium enterprises (SMEs), have become a major constraint in conducting a problem-solving study. Most of the past studies in Ghana (Abor, 2004; Agyapong & Attram, 2019; Agyei, 2018; Fatoki, 2012; Kira & He, 2012; Obuya, 2017; Moghadam & Salamzadeh, 2018; Ye & Kulathunga, 2019; Moghadamzadeh et al., 2020; Amankwah et al., 2021) were only emphasizing the availability of finance, managerial competency, financial literacy and the impact of debt financing on the performance of SMEs (Tajpour et al., 2021 a, b). These researchers did not concentrate on the influence of finance on the organizational performance of SMEs in the Northern part of Ghana. Hence, resulting the research gap that this paper seeks to fill. It is against this background that this research was conducted to examine the influence of funds on the organizational performance of SMEs in the Tamale Metro polis of Ghana.

Objectives of the Study

1. To assess the sources of funding by SMEs in Tamale metropolis
2. To examine the effects of funding on the performance of SMEs in Tamale metropolis

Research Questions

The main question of the study is: What is the influence of funds on the organizational performance of SMEs in the Tamale Metropolis? The specific research questions are:

1. What are the sources of funds to SMEs in the Tamale Metropolis?
2. What is the effect of funding on the performance of SMEs?

Hypothesis

The study sought to test the following hypothesis in drawing a conclusion on the extent to which access to funds by SMEs impact on the organizational performance of SMEs. Thus,

H_0: There is no significant relationship between access to funds by SMEs in Tamale metropolis and their performance.

H1: There is a significant relationship between access to funds by SMEs in Tamale metropolis and their performance.

Theoretical Review

Many theories are largely applied to explain the influence of funds by SMEs on performance. However, this paper was guided by two theories, the Trade-off theory (2016) and the Agency theory.

Trade-of Theory

This theory of capital structure is well-grounded on the idea that a firm chooses how much debt to finance and how much equity finance to use by balancing the costs and benefits. It further considered a balance between the-weight cost of bankruptcy and the tax-saving benefits of debt.

The theory argues that there is an advantage to financing with debt, the tax benefits of debt and there is a cost of financing with debt, the costs of financial distress including bankruptcy costs of debt and non-bankruptcy costs with examples as staff leaving, suppliers demanding disadvantageous payment terms, bondholder/stockholder infighting.

The marginal benefit of further increases in debt declines as debt increases, while the marginal cost increases, so that a firm that is optimizing its overall value will focus on this trade-off when choosing how much debt and equity to use for financing as in the case of SMEs in the Tamale Metropolis. This theory is relevant to the study as debt financing, and for that matter, access to funds by SMEs is concerned. Therefore, if SMEs in the Tamale Metropolis can adopt an equity financing strategy to raise funds instead of borrowing directly from financial institutions, where debt repayment is through dividends, it reduces the debt burden on them as well as the risk of collapsing if they are unable to pay their debt. As such, equity financing via the trade-off theory is necessary.

Agency Theory

The agency theory provides a different perspective from the Trade-of Theory. Jensen and Meckling (1976) outlined a number of potentially costly principal-agent relationships in publicly quoted corporations that may arise because the agent does not always conduct business in a way that is consistent with the best interest of the principals. The firm's security holders (debt holders and stockholders) are seen as principals and the firm's management as the agent, managing the principals' assets. Whilst a number of these relationships are relevant for SMEs, the primary agency conflict in small firms is generally not between owners and managers, but between inside and outside contributors of capital.

Potential agency problems in SMEs are exacerbated by information asymmetries resulting from the lack of uniform, publicly available detailed accounting information. The primary concern for outside contributors of capital arises from moral hazard, or the possibility of the SME owner changing his behaviour to the detriment of the capital provider after credit has been granted. This is because the firm owner has an incentive to alter his behaviour ex-post to favour projects with higher returns and greater risk. Debt providers seek to minimize agency costs arising from these relationships by employing a number of lending techniques. Baas and Schrooten (2006) proposed a classification of lending techniques – transactions-based or hard techniques include asset-based lending, financial statement lending, small business credit scoring lending and the soft technique of relationship lending. Asset-based lending and relationship lending dominate the literature. In practice, lending to SMEs by banks is frequently collateral-based (Kon & Storey, 2003). Financial institutions typically require collateral even for firms with positive cash flow (Manove et al., 2001).

The relevance of this theory to the study cannot be overestimated as SMEs sourcing loans from financial institutions cannot do without collateral since collateral serves as a guarantee to accessing funds to expand their business. This, therefore, gives an indication that without collateral, it would be very difficult for financial institutions to grant them the needed credit since there is a high potential risk of them not being able to pay back the loans they may acquire. Therefore, it stands to reason that collateral is necessary for SMEs in the Tamale Metropolis to access funds from various sources.

Empirical Review

This section of the paper contains scholarly position and the theoretical foundation of the topic under study. The term SMEs has been contested in the scholarly discourse as it varies from country to country and from sector to sector. They are businesses employing between 5 and lees that 50 people.

In Vietnam, they are firms employing 10 and 300 employees (Dalberg Global Development Advisors, 2011). Furthermore, small-scale entrepreneurial enterprises are classified as firms with 10 employees and those with more than 10 employees as medium and large-sized enterprises (GSS, 2002). Small scale enterprise in Ghana has been classified as firms with 30 employees (Osei et al., 1993). They further divided small scale enterprises into three (3) broad categories: Micro, which contains less than 6 employees; Very small: Contains 6 to 9 employees; and Small between 10 to 29 employees.

In Ghana, most of the small-scale businesses are found in the informal sector and largely own by individuals and families. Statistic have it that, 60% of the population makes their living from businesses, 69% of the population are employed in the SMEs sector which are largely located in the rural areas (GSS, 2002).

Access to Funds by SMEs in Ghana

Before any form of business or production activities can commence, SMEs need finance for startup, which is required for the daily activities of the business to operate, and in financing these critical activities, various sources of finance exist, which therefore makes their accessibility more critical to SMEs as they pre-determine their performance and continued existence. In this regard, many researchers espoused formal (long-term and short-term debt, equity from entity owner) and informal (loans from friends and immediate family members) sources of funds (Akorsu et al., 2012; Sibanda et al., 2018; Radović Marković & Salamzadeh, 2018; Radović Marković et al., 2019). Researchers have noted the significant role of funds in business performance (Karedza et al., 2014). Accessing finance has been identified as a key element for the small and medium enterprises to succeed in their quest to build productive capacity to compete and create jobs as a milestone in contributing to poverty alleviation in our developing countries (Idowu, 2010). It is, however, noted that small enterprises in most Sub-Saharan Africa (SSA) have low access to credit facilities and other financial services rendered by formal financial institutions. For instance, in Ghana and Tanzania, only about 5 to 6 percent of the SMEs have access to the banking sector (Basu, Blavy & Yulek, 2004, Quartey et al., 2017).

In Ghana, SMEs are often marginalized or have little access to credit (HFC Bank, 2004, Domeher et al., 2017). Literature demonstrated that only a handful of these businesses are funded by commercial bank loans, government assistant schemes, or other informal sources (Birthal et al., 2017; Abbasi et al., 2017; Bani, 2003; Hosseini et al., 2021; Kawamorita & Salazmadeh, 2021). It is well noted that when SMEs have access to funds it improves their performance. In view of this, several empirical studies have highlighted the issue of financial constrain as the main problem militating against the growth of SMEs in developing economies such as Ghana (Arthur, 2003; Mensah, 2004; Deakins, North, Baldock, & Whittam, 2008; Doshmanli et al., 2018; Kawamorita et al., 2021). But the situation in Tamale is more pronounced in the findings of this paper. The most common ways for SMEs to acquire funds are through interest, equity, or a combination of the two. Typically, the company owner would depend on personal savings (bank savings or "susu") from previous work, gifts from friends or family members (Kwashie Akorsu et al., 2012).

SMEs Financing from Financial Institutions in Ghana

The formal financial sector in Ghana comprises commercial banks (including Merchant Banks and Development Banks), which operate a network of 303 branches in the country; 115 rural and community banks, savings and loan companies and non-bank financial institutions. As banks and other financial institutions have recently sought to broaden their loan portfolios, SMEs have become an increasingly attractive customer group (Korankye-Sakyi, 2019, Yeboah, 2018).

Traditionally, however, financial institutions in Ghana have been cautious with lending to SMEs groups because of high default rates and risks associated with the sector (Gakpo, 2021, Agyei-Boapeah et al., 2020). Therefore, few banks have developed an explicit policy for SMEs target groups, taking particular requirements and needs into consideration, for instance, developing earmarked financial products and appropriate credit management systems. Few banking institutions have SME desks or departments. For the others, lending to micro and small businesses is simply transacted by credit officers from corporate finance departments of the bank, which generally apply the same appraisal and lending principles to SMEs (Ramadhan, 2020). None of the commercial banks has any specialized training for credit officers in proven SME lending techniques, and most credit officers do not have any prior SME specific experience (Prempeh, 2015).

SMEs Performance in Ghana

To define firm performance, Melville et al. (2004) in Sibanda et al. (2018) focused on the impact of funds on various business functions. To include, when the firm has invested in technology, the thinking is that it should be enjoying reasonable production costs. Secondly, the firm must be able to at least compete effectively in the market, and thirdly, the entity should be able to improve its revenue base. Research has also introduced firm marketing performance in an attempt to broaden the definition of performance. In this study, performance is viewed as a multi-dimensional construct and is measured through objective performance dimensions, namely revenue size, revenue growth, average returns, growth in returns and the entity's market share (Mabenge et al., 2020), which is relevant to objectives of this paper.

According to very recent studies, financial constraints have been identified as having the most immediate and important effect on firm growth, of which Ghana is no exception (Beck, Demirguc¸-Kunt, and Maksimovic 2006; Beck and Cull, 2014; Ayyagari et al., 2008; Quartey, 2003; Ebrahimi et al., 2021). Meanwhile, SMEs are very important to the economic growth of African countries (Levine, 2005; Beck and Cull, 2014).

Factors that inhibit SME growth are adequately captured in the literature. Research evidence such as Nugent (1996), Fafchamps (1994), Tybout (2000), Sleuwaegen and Goedhuys (2002), Baah-Nuakoh et al. (2002), Turkson (2010), etc. have noted excessive regulation and tax, underdeveloped rural-based production, lack of finance and skilled labor, volatility in the business environment, market conditions, infrastructure, technology, transport costs, market size, high information costs, etc. as the main impediments to SME growth in developing countries. However, among these factors, researchers and policy thinkers bemoaned the lack of finance as well as the limited access to finance, even if available, as the main SME growth-inhibiting factor. According to Quartey et al. (2017), a brief look at the literature on SME development reveals that inadequacy of funds significantly constrains SME development within SSA (Aryeetey, 1994; World Bank, 1994; Arthur, 2003; Mensah, 2004; Deakins et al., 2008; Okpara, 2011).

Conceptual Framework

The rationale behind a conceptual framework is to serve as a mirror that reflects the full idea of a particular study and a clear definition that warrant the study. To get at a procedure that can provide the greatest feasible explanation of the problem expressed, all important components of a concept must be logically integrated (Osanloo & Grant, 2016). As organizational performance of SMEs, fund is a critical determinant. And this can be viewed from two sources, that is informal (internal) and formal (external) sources.

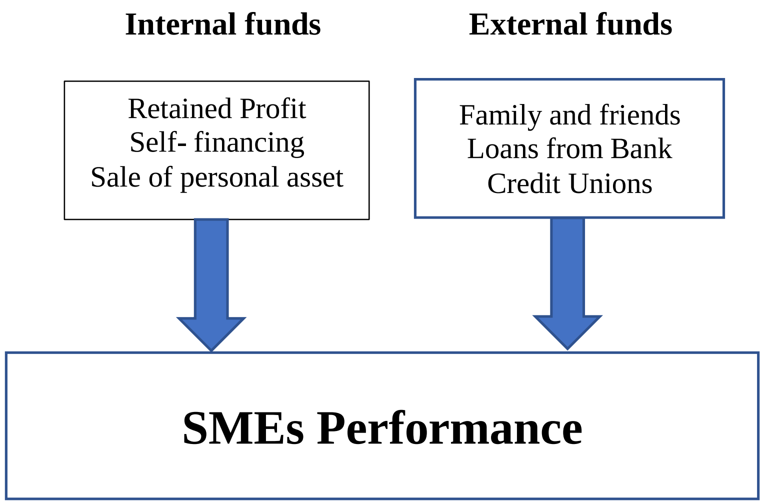

Figure 1. Conceptual framework

Figure 1 above shows that holding other factors constant, SMEs performance is conditioned on their level of access to funds. These could be the formal and informal sources. The literature on the sources of funding shows that SMEs performance is largely determined by the formal sources of funding (Nguyen & Canh, 2020).

Methodology

In writing this paper, the researchers profile the methodology to include the design of this paper, population, sampling procedure, data collection instruments, data collection procedure and data processing and analysis. The descriptive quantitative research design was adopted to collect and analyze field data. The purpose of any descriptive quantitative research design is to predict, describe and elucidate quantities, degrees and relationships and thus to generalize from the relevant sample to the population (Saunders et al., 2009; Salamzadeh, 2015, 2018, 2020). The target populations were SMEs or managers of SMEs in which the total was 120, meanwhile, 92 were surveyed using the right population determination formula (Krejcie & Morgan, 1970; Salamzadeh & Kesim, 2017; Salamzadeh & Kawamorita, 2017). A simple random sample was used by the authors to ensure a fair selection of the participants. The data collected from the field was edited by the researcher to check their completeness and accuracy of filling of responses. The Statistical Package for the Social Sciences (SPSS) software application version 20.0 was used to process the data.

To determine the reliability of the data collection instruments for the study, the questionnaire was pre-tested in some selected SMEs in the Sagnarigu Municipal Assembly, which shares borders with the Tamale Metropolitan Assembly. Sample Questionnaires were administered to SMEs owners/managers to ensure that the items were clear and meaningful.

The administered questionnaires were analyzed using the SPSS, and a reliability test was performed using the Cronbach's Alpha reliability test to determine consistency and the coefficient of reliability produced by the instrument as presented in Table 1 (Salamzadeh et al., 2013, 2014, 2019 a, b). Leech et al. (2005) indicated that an alpha value of 0.70 and above indicates a reasonable internal consistency and that an alpha value between 0.60 and 0.69 indicates minimal adequate reliability. Therefore, any test value that ranges between 0.6 and 0.7 was accepted as the questionnaire was deemed reliable for data collection.

Reliability Coefficient Statistics

Table 2. Result of Reliability Test

Reliability Statistics		
Cronbach's Alpha	**Cronbach's Alpha Based on Standardized Items**	**No. of Item**
0.805	0.796	35

Source: Computed result using SPSS, 2019

Results and Discussions

The study presents the descriptive results, which are presented according to the specific objectives that guide the study and the demographic characteristics of respondents.

Demographic Characteristic of Respondents

This section presents the demographic characteristics of survey respondents, which briefly captures the age, sex and highest level of education. The rest are the age of the enterprise, number of employees and description of respondent's business as presented in Table 1.

Table 1. Demographic Characteristics

Variable	Frequency (N)	Percentages (%)
Age of Respondents		
18-25	4	4.3
26-35	38	41.3
36-45	37	40.2
46-55	12	13.0
>55	1	1.1
Sex		
Female	61	66.3
Male	31	33.7
Highest Level of Education	3	3.3
None	8	8.7
Primary	28	30.4
JHS	23	25.0
Secondary School	6	6.5
Vocational/Technical School	2	2.2
Training College	13	14.1
Polytechnic	9	9.8
University		
How old is your enterprise?		
<1 yrs.	4	4.3
1-5 yrs.	31	33.7
>than 5	57	62.0
How many people does your firm employ?		
<10		
10-49	69	75.0
	23	25.0
What best describes your core business?		
Retail		
Manufacturing	19	20.7
Service	21	22.8
	52	56.5

Source: Field survey (2019)

Table 1 shows descriptive statistics of the demographic characteristics of respondents. The majority of the respondents were 26-35 and 36-45 years of age, and this accounts for 41.3% and 40.2% of the ages of the respondents, respectively. This indicates a youthful population who are into developing their own businesses and creating employment without necessarily waiting to be employed in the public sector. The data also revealed that 66.3% of the respondents were females, and 33.7% were males. It, therefore, implies that there are more females who are into small and medium scale businesses than their male counterparts (Kairiza et al.,2017).

The study also indicated that a greater percentage (75%) of respondents employed less than ten (10) people in their businesses. This number of people employed though appeared small, has created some employment opportunities for some people who otherwise would have been jobless and, as such, tells the crucial role of SMEs in job creation in the country (Idowu, 2010). This notwithstanding, 25% of the respondents indicated that they have employees of more than ten (between 10-49). The results further showed that more than half (56.5%) of the respondents engaged in service rendering (Osei et al., 1993). This reveals that the majority of SMEs are into buying and selling or supplies, which is adding less value to raw materials produced within the domestic economy and that of the Gross Domestic Product (Tambunan,2019). Only a little over twenty percent (22.8%) are engaged in manufacturing and, for that matter, adding value to raw materials, which could boost the domestic economy.

We examined sources of funding by SMEs in the Tamale Metropolis, and as the data highlighted, funding for SMEs comes from various sources. The table (2) shows clearly that, SMEs in Tamale metropolis have two major sources of finance. The majority survey sourced their funds from friends and family 51 (55.4%) and 32(34.5) respectively, as observed by (Akorsu et al.,2012). Table 2 below further shows only a few have access to funds from bank loans, NGO scheme and private money lenders (Basu et al., 2004, Quartey et al., 2017).

Table 2. Sources of Funds of SMEs

Variable	Frequency (N) and Percentages (%)				
	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
Self	0(0)	1(1.1)	0(0)	40(43.5)	51(55.4)
Family and friends	18 (19.6)	26(28.3)	0(0)	32(34.8)	16(17.4)
Bank loan	41(44.6)	36(39.1)	0(0)	9(9.8)	6(6.5)
Government Grant	47(51.1)	41(44.6)	1(1.1)	2(2.2)	1(1.1)
NGO Scheme	34(37.0)	40(43.5)	0(0)	13(14.1)	5(5.4)
Private money lender	47(51.1)	34(37.0)	2(2.2)	7(7.6)	2(2.2)
Requirements					
Business Plan	5(5.4)	0(0)	11(12.0)	55(59.8)	21(22.8)
Financial Statement	6(6.5)	1(1.1)	13(14.1)	54(58.7)	18(19.6)
Business total assets	5(5.4)	1(1.1)	19(20.7)	51(55.4)	16(17.4)
Owner's equity	4(4.3)	5(5.4)	36(39.1)	42(45.7)	5(5.4)
Security/Collateral	11(12.0)	4(4.3)	18(19.6)	39(42.4)	20(21.7)
Purpose					
Working capital	6(6.5)	6(6.5)	1(1.1)	48(52.2)	30(32.6)
Fixed cost	6(6.5)	3(3.5)	8(8.7)	40(43.5)	32(34.8)
Debt consolidation	59(64.1)	14(15.2)	8(8.7)	7(7.6)	4(4.3)
Business expansion	2(2.2)	1(1.1)	2(2.2)	22(23.9)	65(70.7)

Source: Field survey (2019)

We examined the extent to which funds sourced by SMEs owners influenced their performance and growth of businesses. Key variables captured in the analysis include funds covering the fixed cost, variable cost, both fixed and variable cost, increase in production and profitability of the enterprise, as details of the data are presented in Table 3.

Table 3. Influence of Funds on Performance of SMEs

Variables	Frequency and Percentages (%)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
Funds are able to adequately finance fixed cost only	36(39.1)	48(52.2)	0(0)	2(2.2)	6(6.5)
Funds are able to adequately cover the variable cost only	38(41.3)	48(52.2)	0(0)	3(3.3)	3(3.3)
Funds are able to cover both fixed and variable costs	42(45.7)	34(37.0)	0(0)	2(2.2)	14(15.2)
I have been to increase production than before	9(9.8)	2(2.2)	1(1.1)	67(72.8)	13(14.1)
My profit has increased	4(4.3)	2(2.2)	2(2.2)	58(63.0)	26(28.3)

Source: Field survey (2019)

Table 3 shows that funds sourced from external sources by SMEs in some cases did not have any serious influence on their growth. In this regard, over ninety percent (91.3%) of respondents disagreed that funds sourced are able to adequately finance the fixed cost of their business. This implies that funds sourced were not adequate to cover for purchasing certain essential machines and equipment that could help in the production and transportation of goods and services to their clients (Deakins et al. 2008; Okpara 2011). In the same vein, over ninety percent (93.5%) of the respondents disagreed with the assertion that funds sourced are able to adequately cover the variable cost of their businesses. This means that funds sourced could not make up for the purchasing of raw materials, paying for utilities and labour as well as other related items that could facilitate the production of goods and services (Maksimovic 2008; Quartey 2003).

Notwithstanding the fact that funds sourced by SMEs could not adequately cater for the fixed and variable cost, funds sourced can positively influence their business. In this case, more than eighty percent (86.9%) of the respondents agreed with the statement that the funds they sourced had increased the production of goods and services of their enterprises (Karedza et al., 2014). Further interrogations with SMEs owners revealed that they have been able to increase production by about 40% as a result of the funds they sourced from various sources. Following this, 91.3% of the respondents agreed that having more funds to invest in their businesses has resulted in an increase in their profit. Further interviews with some SMEs owners revealed their profit margins have increased by about 30% annually. This suggests that funding for SMEs, to a large extent, have a positive influence on their performance (Levine, 2005; Beck and Cull, 2014).

Testing of Hypothesis

To ascertain whether indeed there is any significant relationship between access to funds by SMEs and their performance, chi-square test at ***95%***

significance level with a critical value of **0.05** is performed to establish this relationship as presented in Table 4. The hypothesis:

H_0: There is no significant relationship between access to funds by SMEs in Tamale metropolis and their performance.

H_1: There is a significant relationship between access to funds by SMEs in Tamale metropolis and their performance.

Table 4. Significant relationship between access to funds by SMEs and their performance

Scale	Observed N	Expected N	Residual	Chi-Square (χ^2)	df	Asymp. Sig. (p)
Strongly Disagree	26	18.4	7.6	11.07	5	2.330
Disagree	27	18.4	8.6			
Neutral	1	18.4	-17.4			
Agree	26	18.4	7.6			
Strongly Agree	12	18.4	-6,4			
Total	**92**					

χ^2 = 11.07, *p*-value= 2.330, degree of freedom (df) =5

Source: Field data, 2019.

As shown in Table 4, a weak association (p-value=2.330) between access to funds and performance is observed, suggesting there is no significant relationship between access to funds and performance, which further indicates performance in terms of increase in production and profit of SMEs may be due to other factors but not because of mere access to funds. This, therefore, means that the Alternate hypothesis (**H_1**) is rejected since χ^2 (5) = 11.07

and p >.05 (2.330) whilst the Null hypothesis (**H_0**) is accepted. This finding deviates from what Sibanda et al. (2018) found on the impact of SME access to finance and performance on exporting behavior of firms in Zimbabwe. They found a positive and significant impact of access to finance on firm performance of SMEs, as hypothesized in their study. The hypothesis shows a positive path coefficient of 0.276 for the posited linear relationship between access to finance and firm performance. The path coefficient of 0.276 exceeds the recommended path coefficient threshold of 0.2, thus validating the hypothesized positive impact of access to finance on firm performance of SMEs.

Conclusion

The focus of this paper was to examine the influence of funds by SMEs and their performance in the Tamale metropolis of Ghana, focusing on the formal and informal sources and providing research-led policy initiatives. Using 92 firm owners or managers in Tamale metro, we investigated the relationship between finance and firm performance. This study examined one of the most important issues: the source of funding financial performance of small and medium enterprises (SMEs) in Northern Ghana. Again, the study observed that there was a direct link between business performance and access to funds. The study also shows that access to finance is a major problem for SMEs with its negative effects on their performance.

Recommendations

The findings can help inform government and business stakeholders to create an environment suitable for the general growth of SMEs in the northern part of Ghana. This study has observed that policymakers in Ghana can boost SMEs growth by creating easy access to formal finance. In partnership with the Bank of Ghana, governments can create incentives that encourage formal financing institutions to lend financial support to SMEs. SMEs should network or form partnerships, pool financial capital, and sometimes collaborate on programs. A fund like this could assist these companies in taking this measure. This is because as they engage, they will notice common strategic cooperation and coordination opportunities.

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Declaration of interest Statements

This paper contributes to knowledge in the business industry, especially for SMEs, and to provide a roadmap for easy access to funds and business performance. This study is the first to have examined SMEs in the Tamale metropolis access to funds and their performance.

Recommendation for Feature Research

It is important that the study be carefully interpreted, given that the study seeks to investigate the influence of funds on the organizational performance of SMEs in the Tamale metropolis of Ghana. The paper proposed that feature research could investigate factors that influence SMEs performance beyond only funds.

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