

# DETERMINANTS OF INTERNAL RESOURCES OF SMALL AND MEDIUM SIZED-ENTERPRISES IN CAMEROON

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## Abstract

Financing decisions have direct impact on financial structure and financial performance of firms. The aim of this study is to examine the specificity of capital structure of SMEs and that internal financial resources of Cameroonian SMEs. A binary discrete choice regression; the probit model is used to estimate the probability of the use of internal resource as principal financing source, World Bank 2009 enterprise survey was used in this study. Descriptive statistics was also used to verify the fact that the financial structure of SMEs differ from that of large firms. The principal results of this research shows that SMEs use more of internal sources of finance while large firms use more of external financing. We also noticed that when SMEs are family owned, sole proprietors have a higher probability of using internal source of financing as the principal source of financing, we also noticed that informal enterprises use more of non-bank external financing.

**Key words:** SMEs; Financial structure; internal resources ; performance

## Introduction

Financing decisions are one of the most critical areas for finance managers as they have direct impact on capital structure and the performance of companies. It is usually difficult for business firms to identify the right combination of debt and equity. It is a topic that continues to keep researchers pondering. Capital structure is directly related to the performance of the firm; including SMEs .The needed fund may be for daily running or business expansions. This tells how important or essential fund is in the life of a business. This fund is referred to as capital. Capital therefore refers to the means of funding a business. Capital of firms when sourced, it becomes a burden on enterprises simply because it is other persons' resources which they are to compensate as they derive maximum .

Two major sources are available for firms willing to raise funds for their activities. These sources are internal and external sources. The internal source refers to the funds generated from within an enterprise which is mostly retained earnings. It results from success enterprises earn from their activities. Firms may in the same vein look outside to source for their needed funds to enhance their activities. Any funds sourced not from within the earnings of their activities are termed external financing. The external funding may be by increasing the number of co-owners of a business or outright borrowing in form of loan. Issuance of equity helps in sourcing for fund through external financing leading to increment in the number of owners where its holders are entitled to dividends when surplus is declared and after meeting the mandatories. In the same vein, the equity holders exercise a greater decision control over the firm because they bear the larger share of risk. On the other hand, outright borrowings by a company make her a creditor to the lenders. This

may be through issuance of debentures, bonds or other forms of debt instruments. The holders of this are entitled to a fixed amount of interest to be paid before the equity or shareholders. They have lesser control over decision in the organization.

All modern researches in management sciences have issues with the Modigliani and Miller (1958) proposition which states that in a world of perfect capital market and no taxes, a firm's capital structure will not influence its cost of capital. This proposition submitted that firms in a given risk class would be unaffected by financial gearing (Weston and Copeland, 1998). Borigham and Gapenski (1996) argue that an optimal capital structure can be attained if there is a tax-sheltering benefit, provided an increase in debt level is equal to the bankruptcy costs. They suggest that managers of a firm should be able to identify when the optimal capital structure is attained and try to maintain it at that level. This is the point at which the financing costs and cost of capital are minimized, thereby increasing firm value and performance.

Research in Cameroon is not on the sidelines of the theoretical and empirical debate on the SME financing. The main research on SME financing in Cameroon highlight results that are close to those observed in other economies of Africa. Cameroonian SMEs rely mainly on equity to finance their various needs. When they go for debt, they general access to short-term debt ( Yumgue , 2007; Um- Ngouem , 1996 and 1997 ; Um- Ngouem and Edding , 2002) we note the preponderance tontine and social network capital injection in the Cameroonian SMEs. The characteristics of the firm's economic sector and type of assets to be financed also influence the financial structure of SMEs in Cameroon (Yumgue, 2007). Other studies allow to recognize the importance of financial information on the decision of lending to SMEs by banks in Cameroon (Wamba and Tchamambe – Djine 2002; Ndjanyaou, 2007). According to Wamba and Tchamambé-Djine (2002), the problems of financial information are related to their failure and imperfection.

Recent researches provided by the World Bank found that about 90% of SMEs access to credit is a major constraint to take new investments (Parker et al; 1995). Levy (1993) also found that there is limited access to financial resources available to smaller enterprises compared to larger organisations and consequences of their growth and development. Ayyagari, et al (2006) show that finance, crime, and political instability directly affect the rate of growth of firms, with finance being the most robust variable affecting firms' growth rate. SMEs access to credit is extremely limited. Banking penetration of the private sector is very low in Cameroon; it is only averaging 18% of GDP (World Bank, 2006) and it is only major corporations or big enterprises that benefit from the bulk of financing. According to several studies (Africa practice, 2005; IMF, 2004; Aryeetey, 1998; World Bank, 2006), difficulties in gaining access to financing constitute the main stumbling block for SME development in Cameroon. However, the role of finance has been viewed as a critical element for the development of SMEs (Cook and Nixson, 2000).

The financial performance of a firm relates to its motive to maximize profit both to shareholders and on assets (Chakravarthy, 1986) while the operational performance concerns with growth and expansions in relations to sales and 'market value (Hofer & Sandberg, 1987). Since capital is employed by firms to achieve the firm's set goals, and performance is said to be the goals so set, both capital structure and firm performance are therefore expected to be proportionally related and influenced one another.

. Presently, in the transition economy of Cameroon, SMEs are still subject to financial difficulties that limit their growth and development (Gregory et al, 2005; Coluzzi et al, 2009; Ardickt et al, 2002). Compared with large enterprises, SMEs are handicapped as for the access to financing and especially

for long term loans. These external funding problems result mainly from the inability of donors of funds to estimate the degree of risk associated with these small entities, which may not provide a basis of reliable information or adequate collateral security. SMEs are characterised first of all by a lack of equity that weakens their solvency (Alleuret , 1995).

Although there has been a great deal of research on the subject of capital structure, this study makes a contribution to the literature in this area because it attempts to unfold the capital structure practices of small and medium sized enterprises operating in Cameroon. In order to achieve this objective, this study is organised as follows, we will treat theoretical and empirical literature review after introduction, followed by data and methodology, discussion and finally conclusion

## **LITERATURE REVIEWS**

### **Theoretical literature review**

#### **. THE LIFECYCLE APPROACH**

The lifecycle approach, as described by Weston and Brigham (1981), was conceived on the premise of rapid growth and lack of access to the capital market. Small firms were seen as starting out by using only the owners' resources. If these firms survived, the dangers of undercapitalization would soon appear, and they would then be likely to make use of other sources of funds, such as trade credit and short-term loans from banks. Rapid growth could lead to the problem of illiquidity. "The dynamic small firm would therefore have to choose between reducing its growth to keep pace with its internally generated funds, acquire a costly stock market quotation, or seek that most elusive form of finance – venture capital" ( Weston, J.F. and E.F. Brigham, *Managerial Finance*, Hindgale: Dryden Press, 1981). Thereby indicating a trend in SMES that expanding small firms are likely to experience rising short-term debt and use little or no long-term debt.

#### **2. THE PECKING ORDER THEORY**

The existence of information asymmetries between the company and its financial partners has been the origin of the theory of hierarchical order. The pecking order theory as propagated by Myers (1984)<sup>1</sup> states that firms finance their needs in a hierarchical order, first by using internally available funds, followed by debt and finally, external equity. This practice is more common in Small Firms practice and indicates the negative relationship between profitability and external borrowing by small firms. According to the report by South African reserve bank (2004) "This hypothesis implies that there tends to be a negative relationship between profitability and external borrowing by small firms. In other words, assuming a zero growth, firms with high profitability would generate higher levels of internal liquidity, reducing the need for borrowing. Older firms, it may then be hypothesized, would make less use of external finance and, instead, would rely on retained funds."

This theory places emphasis on transaction costs, contracting analysis following the work of Coase (1937)<sup>2</sup> Jensen and Meckling (1976)<sup>3</sup> and most important, Stiglitz and Weiss (1981)<sup>4</sup>. The work of these writers all point to the challenges that surround ownership, contractual agreements, management interrelationship, credit rationing etc between SMEs and external providers of finance, thereby subjecting firms to the risk of asset substitution which in practice means a change in the firms asset structure. For very small and micro-enterprises this asset substitution may well take place between the enterprise and the owners household. As described in the report by South African reserve bank (2004).

### 3. AGENCY THEORY

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"The presence of these problems in small firms may explain the greater use of collateral lending to small firms as a way of dealing with these agency problems. Lenders' strategies for dealing with these problems also add significantly to the cost of dealing with this sector. For a large enterprise the evaluation of an application for finance may be limited to the assessment of an (audited) set of financial statements and supporting documentation provided by the applicant, while for SMEs the assessment frequently has to go far beyond this, implying a substantially higher transaction cost.

Regardless of all the theories explaining the financial needs of SMEs, it's clear that the financial needs of SMES in both developing and industrial countries is largely diverse, they differ from region to regions or country to country

#### **Empirical literature review**

Firm-specific characteristics have been identified in previous empirical studies examining capital structure of firms. These firm characteristics which have been noted to affect the capital structure decisions of firms are discussed below:

First, the age of the firm, this is a standard measure of reputation in capital structure models. From the life-cycle perspective, as firm ages, it establishes itself as a going concern thereby increasing its capacity to take on more debts. Therefore age is positively related to debt. Before granting a loan, banks tend to evaluate how worthy entrepreneurs are as they are generally believed to pin high hopes on very risky projects, promising high profitability rates. Concerning highly indebted firms, they operate with creditors' money. If investment is profitable, shareholders will collect a significant share of the earnings; but if the project fails, then the creditors have to bear the consequences (Myers, 1977).

Managers who are concerned with the firm's reputation tend to act more prudently and avoid riskier projects in favour of safer projects, even when the latter have not been approved by the shareholders, thus reducing debt agency costs by reducing temptation of operating at the detriment of creditors. This perspective is also supported within the context of small businesses. The extension of firm risk to the personal affairs of the businessman, (given the unlimited liability of entrepreneurs) to be a way of managing the agency costs resulting from cases of more opportunistic behaviors. Hall et al., (2004) concurred to the above aspect of capital structure noting that age is positively related to long-term debt but negatively related to short-term debt. Esperanca et al., (2003), however found that age is negatively related to both long-term and short-term debt. Green (2002) also found that age has a negative influence on the probability of incurring debt in the initial capital equation, and no impact in the additional capital equation.

The association between a firm's capital structure and its operating characteristics such as size and industrial classification, among others took an added importance as a result of the debate started by Modigliani miller (1958), regarding cost of capital and optimal structure. Scott and Martin (1970) supported the view that size shapes a firm's debt equity mix.

The asset structure of a firm plays a significant role in determining its capital structure. The degree to which the firm's assets are tangible should result in the firm having greater liquidation value (Titman and Wessels, 1988; Harris and Raviv, 1991). Bradley et al. (1984) assert that firms that invest heavily in tangible asset also have higher financial leverage since they burrow at lower interest rates if their debts are secured with such assets. It is believed that debt may be more readily used if there are durable assets to serve as collateral (Wedig, Sloan, Hassan and Morrissey, 1988). This will result in firms with assets that have greater liquidation value having relatively easier access to finance at lower costs. Empirical research done by Bradley et al., (1984); Wedig et al., (1988); Rajan and Zingales (1994), Shyam-Sunder, (1995) and Myers, 1999; suggested a positive relationship between asset structure and leverage for the firms, and a negative coefficient between depreciation expense as a percentage of total assets and financial leverage.

In other studies done by Van der Wijst and Thurik, (1993) and Chittenden et al., (1996); Jordan et al., 1998; Michaelas et al., (1999); Cassar et al., (2003); Hall et al., (2004) suggested a positive relationship between asset structure and long-term debt, and a negative relationship between asset structure and short-term debt. However, Esperanca et al., (2003) also found a positive relationship between asset structure and both long-term and short-term debt. The level of tangible fixed assets therefore can help firms obtain more long-term debts.

Gender of the small business owner may affect the capital structure choice of the firm. It is argued that women-owned businesses are less likely to use debt for a variety of reasons, including discrimination and greater risk aversion (Riding and Swift, 1990; Brush, 1992; Scherr et al., 1993). In addition, women may not network as effectively as men (Aldrich, 1989; Brush, 1992) and therefore may not have the same access to sources of information and debt capital as men do. Thus, they may turn to informal sources of finance such as personal financial resources (Kalleberg and Leicht, 1991; Loscocco and Robinson, 1991). Aryeetey et al. (1994) agreed that the access of women entrepreneurs is limited principally by their concentration in smaller enterprises and their lack of fully-documented property as collateral.

The form of business could affect the debt-equity decisions of SMEs. Shareholders of corporations and limited companies have limited liability against losses, where as general partners and owners of sole proprietorships have unlimited liability. Consequently, shareholder-creditor conflicts are more likely among corporations and limited companies than they are for general partners and sole proprietorships. Thus, corporations and limited liability companies may be more likely to finance their projects with equity, while sole proprietors are more likely to employ debt financing (Brewer et al., 1996).

## **Data and methodology**

### **Data:**

The dataset used in this study is secondary data from the World Bank 2009 enterprise survey in Cameroon. It covers 363 firms from 3 towns of Cameroon that is Douala, Yaoundé and Bafoussam. The enterprise survey covers small, medium and large firms. The survey is administered to representative firms of the non-agricultural formal private economy. It includes the manufacturing sector, service sector, and transportation and construction sectors. Public utilities, health care, government services and financial sectors are not included in the sample. A wide variety of quantitative and qualitative information was collected in Cameroon through face to face interview with firm managers and owners on diverse topics; infrastructure, trade, finance, regulations, taxes,

regulations, taxes and business licensing, corruption, crime and informality, innovation, labour and perceptions about obstacles to doing business in Cameroon

## Methodology

In our analysis, we effectuated an exploratory analysis of our data. Descriptive statistics have been widely used in academic research on capital structure (Abor, 2005; Ebaid, 2009; Mesquite and Lara (2003), Abdullah, 2004; Lam & Lee, 2008). Descriptive statistics measure the central tendency and dispersion. The most commonly used measures of central tendency are the mean, minimum value, maximum value and standard deviation, which were calculated for each of the endogenous variables. This helped in the better understanding of the distribution of the variables. Concretely we presented the mean, standard deviations; minimum and maximum values of our different variables were calculated using a binary discrete choice regression model in order for us to test our hypothesis. A linear correlation matrix between the different variables of the model was also presented. The model constructed is therefore interested in the effect of the endogenous variable on financial performance.

Presentation of variables of the Study

Dependent variables:

The dependent variable used in our study is the principal funding source, which is used to determine whether SMEs in Cameroon uses more of internal finance or external finance.

Independent Variables:

These are variables that contribute in the estimation of the dependent variable, they are independent because they are given and are used to estimate the dependent variable. The independent variables are listed in the table below and represent SMEs characteristics.

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**Table 1: Variables Selected for Study**

Variable	Nature	Description
Principal funding source	Dependent	1 if equity or internal finance and 0 otherwise (external finance)
Size of Enterprise	Independent	Dummy variable (1=yes and 0=no) <ul style="list-style-type: none"> <li>• Small</li> <li>• Medium</li> <li>• Large</li> </ul>
Current legal status	Independent	Dummy variable : (1=yes and 0=no) <ul style="list-style-type: none"> <li>• Sole proprietor</li> <li>• Partnership</li> </ul>
Age of the enterprise	Independent	It is counted from 2009 minus the year it was officially registered
Gender	Independent	1= female and 0=no
Nature of enterprise	Independent	1= formal and 0=informal
Existing business	Independent	1= yes and 0=no

Source: computed by author from the enterprise survey dataset

## Model Specification and justification

### a. SPECIFICATION

Let us suppose a regression equation of the form

$$y_i^* = a_0 + a_1 x_i + \epsilon_i \quad i=1, \dots, n \quad (1)$$

Where  $y_i^*$  is the explained variable which can take two values, one (1) and zero (0)

$$y_i = \begin{cases} 1 & \text{Equity or internal financing} \\ 0 & \text{debt or external financing} \end{cases} \quad \text{or} \quad y_i = \begin{cases} 1 & \text{if } y_i^* > 0 \\ 0 & \text{if } y_i^* \leq 0 \end{cases} \quad (2)$$

where  $i=0,1$

$Y_i$  = principal source of financing

$x_i$  = set of exogenous variables (explanatory variable) which represents the characteristics that affect financial structure.

$\epsilon_i$  = Error of model specification

$a_0 + a_1$  = Are parameters to be estimated? Hence the model can be presented thus:

Principal source of financing = F (age, sole proprietorship, partnership, family size, formal enterprise, informal enterprise, gender)

In the probit model the repartition function of the error term is given by

$$p_i = \int_{-\infty}^{a_0 + a_1 x_i} \frac{1}{\sigma} \pi e^{-t^2/2\sigma^2} dt \quad (3)$$

It is the reduced and centered normal law  $N(0,1)$

The probit model assumes that the conditional mean function for Y is given by

$$P = F(I) = F(\beta_0 + \beta_1 X_1 + \dots + \beta_k X_k) \quad (4)$$

Where  $I = \beta_0 + \beta_1 X_1 + \dots + \beta_k X_k$  is called the index function. When the value of an explanatory variable changes, the value of the index function changes. When the value of the index function changes, the probability that  $Y = 1$  changes.

### b. JUSTIFICATION OF MODEL:

In this research we have a situation where our dependent variable is binary that is whether an enterprise uses internal finance or external finance. A binary discrete choice regression model is used to describe a data generation process that has two possible outcomes. In economics, these two outcomes are usually alternatives associated with a choice process. Due to the shortcomings of the linear probability model, which include;

- One undesirable property of the LPM is that, if we plug in certain combinations of values for the independent variables, we can get predictions either less than zero or greater than one. Of course a probability by definition falls within the (0,1) interval, so predictions outside this range are meaningless and somewhat embarrassing.
- A related problem is that, conceptually, it does not make sense to say that a probability is linearly related to a continuous independent variable for all possible values. If it were, then continually increasing this explanatory variable would eventually drive  $P$  ( $y = 1/x$ ) above one or below zero.
- A third problem with the LPM - arguably less serious than those above - is that the residual is heteroskedastic by definition that is the residual is related to the explanatory variables.

- A fourth and related problem is that, because the residual can only take two values, it cannot be normally distributed. The problem of non-normality means that OLS point estimates are unbiased but its violation does mean that inference in small samples cannot be based on the usual suite of normality-based distributions such as the t test.

## Results and Discussion

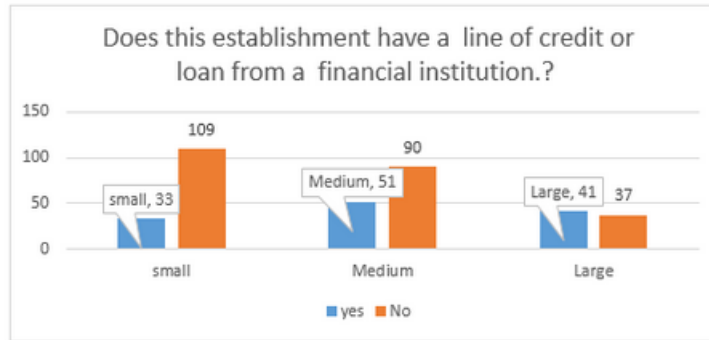
The discrimination in debt financing of SMEs tends to be more serious than in financing large and publicly listed firms (Cavalluzzo et al., 2003). The issue of gender appears to be a major point of discrimination. Female-owned businesses, which mostly fall in the category of SMEs, tend to have greater difficulty accessing external debt finance compared to male-owned SMEs. Some other features have been identified such as; a lower fixed to total assets ratios, a higher proportion of trade debt in total assets, a much higher proportion of current liabilities to total assets (and in particular a much greater reliance on especially short-term , bank loans to finance their assets), heavily reliance on retained earnings to fund investment flows, obtain the vast majority of additional finance from banks (with other sources, in particular equity, which is very much less important , financially more risky, as reflected in their relatively high debt-equity ratio and in their higher failure rates (Storey et al., 1987; Cressy, 1996).

It is also likely that SMEs are more vulnerable to credit crunches during economic downturns or financial crises than larger enterprises. The European Central Bank (ECB) and the European Commission twice a year conduct a survey of SMEs to analyse their financing conditions in the euro area. The surveys from 2009 provide evidence that the financial and economic crisis had an adverse effect on the availability of external financing for SMEs (ECB, 2009, 2010). The surveys reveal that access to finance was the second most serious problem, reported by 17% of SMEs in the first half of 2009 and by 19% in the second half of 2009 (ECB 2009, 2010). Although around three out of four applications for the bank loans were successful either wholly or in part, the results suggest that the bigger and older the firm applying for a bank loan is, the more likely it is that the loan is granted.

In the survey of the first half of 2009, around half of micro firms reported that they received the full amount of loans they applied for, while this is the case for around 70% of medium enterprises, on average, 25.2% of the enterprises in the twelve new member states report that they encounter constraints or difficulties in access to finance, while the percentage for fifteen old member countries is 20.3%. The most pressing problem SMEs in the euro area was finding customers, reported by 27% of SMEs in the first half of 2009 and 28% in the second half of 2009, Sized and large companies (ECB 2009). Similarly, the number of rejected applications is significantly higher for the smallest firms than for larger companies. Hence, it seems that the smaller the firm, the more severely it might be affected by the deteriorating economic conditions. SMEs are financially constrained in accessing additional equity and their only option is to obtain additional bank finance or leverage their trade credit capability (Berger and Udell, 1998; Howorth, 2001).

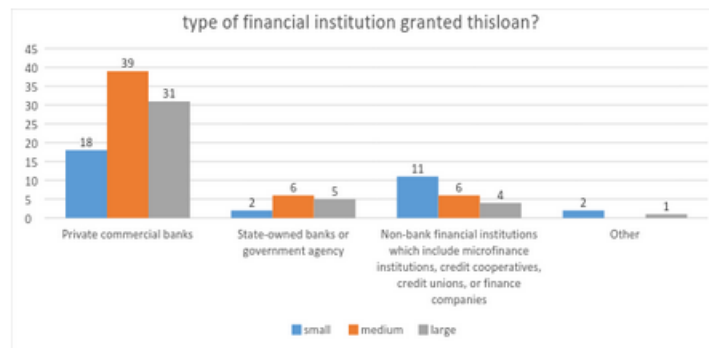
Nevertheless, available data from the banking sector shows that 78.7% of all commercial bank loans go to SMEs and large companies. This includes 86.2% of all medium term, 18.9% of all long term and 3.6% of all short term loans. SMEs and large firms pay back their loans better than the other classes of borrowers. The average loan repayment by all groups of bank clientele stands at 52.5% which is below the World Bank standards. Even the SMEs loan repayment rate of 62.9% is still below the World Bank standards. The following tables show differences in the financial structure of SMEs and large firms in Cameroon; generated from our data set





Source: Computed by Author using Stata 11.2

We see that large enterprises have higher number of lines of credit than Small and Medium Sized enterprises. This confirms the fact that large enterprises use more of external financing as principal source of finance.



## 1. Descriptive Statistics

As discussed in the statistical model, descriptive statistics were calculated for the endogenous capital structure variable and the exogenous financial performance variable in the study. Descriptive statistics compared the level of equity by the companies, shows the number of observations, and describes the characteristics of SMEs in Cameroon susceptible to affect performance. It also describes the variables used to measure firm performance. A summary of the descriptive statistics is presented in the table below:

**Table 8: Summary of Descriptive Statistics for selected variables from the 2009 Enterprise survey dataset in Cameroon**

Variables	observation	Mean	st.dev	Minimum	Maximum
Finance source	363	0.6446281	0.4792865	0	1
Age	363	18.27273	13.4526	1	79
Sole proprietor	363	0.5922865	0.4920877	0	1

Partnership	363	0.1129477	0.3169657	0	1
Existing business	363	0.077135	0.2671738	0	1
Family business	363	0.0385675	0.1928276	0	1
Formal	363	0.8236915	0.3816085	0	1
Informal	363	0.1735537	0.379248	0	1
Female	363	0.107439	0.3100967	0	1

**Source:** The author using STATA 11.2

- **Principal source of financing**

The table above shows that on average many SMEs turn to have more of equity or internal financing as their financing option, here our mean value is 0.644.

- **Age of enterprise**

We see from above that the average age of the enterprises in our dataset is 18 years with a minimum of 1 year and a maximum age of 79 years

The table above equally shows descriptive statistics for all the other variables we see that most of the enterprises are sole proprietors with a mean of 0.59 while there are few partnerships with mean of only 0.11.

In order to have a view of the relationship between variables linear correlation matrix between the endogenous and exogenous variables was used to test the relation between the variables.

**Figure 4: Linear correlation test between variable**

	financ	age	solepro	partner	existi-z	family-z	formal	informal	female1
financ	1.0000								
age	-0.0569	1.0000							
solepro	0.1687	-0.2627	1.0000						
partner	0.0104	-0.0532	-0.4301	1.0000					
existi ngbi z	-0.1521	0.2362	-0.1383	-0.0053	1.0000				
familybi z	0.0889	0.1408	-0.0376	0.0189	-0.0579	1.0000			
formal	-0.2076	0.0643	-0.1338	-0.0176	0.0525	0.0551	1.0000		
informal	0.2035	-0.0672	0.1434	-0.0027	-0.0507	-0.0540	-0.9905	1.0000	
female1	-0.0584	-0.0845	0.1792	-0.0114	-0.0003	0.0229	0.0438	-0.0415	1.0000

Source: Computed by Author using [Stata11.2](#)

The correlation between the variables can be examined such that -1 indicates the opposing relationship between the variables, 0 indicates that there is no correlation between the variables, and 1 indicates that there is a strong correlation between the variables.

The table above shows that the age of enterprises have a negative relation with the use of internal finance, this is feasible because older enterprises can easily sort and have external finance because of their established reputation. We also see that sole proprietorship have a positive relation with use of internal finance, this is because they are usually small and private wealth is always an integral part of the enterprise. We also notice that existing businesses have a negative relationship with the use of internal source of financing, this is normal because they can easily get external financing from banks, friends and relatives because they have a constant cash flow. Family businesses have a positive weak relation with the use of internal financing, this is normal because family businesses prefer to keep family wealth and are afraid of intruders.

Formal enterprises have a negative relationship with the use of internal finance, this is because they have a status that permits banks and other sources of finance to have confidence in them, contrary to informal enterprises that can use only their internal funds or can easily get external financing non-banking sources like friends and relatives. When a woman is the head of the enterprise, our data shows that she has the ability to attract external finance thus there is higher possibility of external finance.

## Results and Discussion

### 1. The regression model

The table below shows the results of the probit regression, it shows the probit regression reporting marginal effects, this permits us to interpret the coefficients directly.

**Table 9: Probit Regression model**

Probit regression, reporting marginal effects						Number of obs = 363	
Log Likelihood = -216.72713						LR chi 2(8) = 38.96	
						Prob > chi 2 = 0.0000	
						Pseudo R2 = 0.0825	
financ	dF/dx	Std. Err.	z	P> z	x-bar	[	95% C. I. ]
age	.0005322	.0020451	0.26	0.795	18.2727	-.003476	.00454
solepro*	.1878011	.0617182	3.04	0.002	.592287	.066836	.308767
partner*	.1097228	.0785102	1.30	0.195	.112948	-.044154	.2636
existi-z*	-.2111772	.1045241	-2.06	0.039	.077135	-.416041	-.006314
family-z*	.2267492	.0880057	1.84	0.066	.038567	.054261	.399237
formal*	-.7050313	.0299222	-29.60	0.000	.823691	-.763678	-.646385
informal*	-.8921808	.0131021	-17.63	0.000	.173554	-.91786	-.866501
female1*	-.1376619	.0891125	-1.59	0.112	.107438	-.312319	.036995
obs. P	.6446281						
pred. P	.6632896	(at x-bar)					

(\*) dF/dx is for discrete change of dummy variable from 0 to 1  
z and P>|z| correspond to the test of the underlying coefficient being 0

*Source: By the author using the switching regression technique SMEs survey in stata SMEs data collected by the world bank.*

The table above shows the regression results of our model, the prob>chi(2) is perfectly significant at 1% level of significance which means that our model is globally significant, thus there is atleast one explanatory variable that is different from zero. While our pseudo R shows that our model explains the dependent variable by almost 0.92 which is very good.

### Impact of the legal status of enterprise on principal source of finance

In this study two prominent legal statuses of SMEs were taken into consideration; Sole proprietors and partnership. Our study shows that sole proprietors have a higher and positive relationship with the use of internal finance, the probability is 0.2 and it is significant at 1% level of confidence. That of partnership is positive but not significant, this is probably because of their limited quantity in the sample.

### **Impact of the age and type of enterprise on principal source of finance**

We see from above that the age of the enterprise has a very weak positive effect but it is not significant meanwhile when it is an existing business there is a negative and significant effect on the probability of using internal finance, we see from above that the probability of using internal finance reduces by 0.2 and it is significant at 5% level of confidence. For family businesses this variable has a positive and significant relationship with the probability of using internal funds, we see that the probability of using internal funds increases by 0.22 when it is a family business, this variable is significant at 10% level of confidence.

### **Impact of formality on source of financing**

The source of financing also varies whether it is a formal or informal enterprise, our results show that the probability of using internal source of financing reduces when the enterprise is a formal and when it is an informal enterprise, both are significant at 1% level of confidence with the negative effect of informal SMEs higher than that of formal SMEs, the results show that the probability of using internal financing will reduce by 0.7 and 0.8 for formal and informal SMEs respectively.

In conclusion, this second part of our study has discussed mainly the relevant issues regarding SMEs in Cameroon. This part brought out the impact of equity financing on SMEs performance. We later saw anterior studies on the effect of equity capital on performance. The second hypothesis, postulated that; there is significant relationship between equity financing and performance of Cameroonian SMEs

This was tested using the regression model, the descriptive statistics and the linear correlation matrix. Following these results, the equity financing confirmed the hypothesis having a positive and significant influence on the SME performance. It is therefore concluded that the higher the equity structure in Cameroonian industrial firms, the better the firm performance. The equity capital is considered an important element in the determination of capital structure and the performance of the firm. This is important for investors, entrepreneurs and firm owners to know.

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