ENVIRONMENTAL FACTORS AND FINANCIAL SUSTAINABILITY OF SMES IN SEKONDI-TAKORADI, GHANA

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ABSTRACT

SMEs are critical to every economic growth. However, between 60% and 80% of SMEs fail within 5 years of their establishment. This study was therefore aimed at finding out the level of SMEs' financial sustainability and the environmental factors that influence the businesses' financial sustainability in Sekondi-Takoradi. The study adopted quantitative design approach. Through convenient sampling technique, 250 SME owners from the metropolis were sampled for the study. The data collected were then analyzed using regression analysis and correlation. The study revealed that both internal and external factors significantly influenced SME' financial sustainability. However, while the internal factors have a positive influence on the financial sustainability of SMEs, the external factors have a negative influence on the financial sustainability of SME in Sekondi-Takoradi. Moreover, the study found the businesses to be financially sustainable (good to moderate extent). It was therefore recommended that SME owners in the metropolis should focus on maximizing the internal factors to compensate for the negative effect of the external factors to improve on their financial sustainability.

Keywords: Financial Sustainability, Internal Factors, External Factors, Entrepreneurship, Family Business.

INTRODUCTION

SMEs are considered as engine of growth to every economy and the main contributor to employment and wealth creation (Cho et al., 2017). However, between 60% and 80% of SMEs are not able to survive within 5 years of their establishment, (Atanga, 2019; Cho et al., 2017). According to Agyapong & Attram (2019), lack of competitiveness resulting from low sales and or limited growth has been the major challenge to SMEs failure. Besides, Ghana Statistical Service (GSS) has reiterate that the emergence of COVID-19 has further threatened the survival of existing SMEs. This therefore pose a challenge to meeting the Sustainable Development Goals (SDGs), 8-economic growth. This therefore remains a major concern to the operators and the nation at large. Recent studies have discussed, marketing innovation and sustainable competitive advantage (Quaye, & Mensah, 2018), financial literacy (Tuffour et al., 2022), barriers of SMEs' sustainability (Amoah et al., 2021), sustainability of small and medium scale (Anane et al., 2013) among others. These studies have dealt with some aspect of the environmental factors and financial sustainability, but rarely considered both the internal and the external factors and their influence on SMEs financial sustainability. Besides, Sekondi-Takoradi, which is dubbed "the oil city" has rarely been a focused of such studies despite the huge emergence of SMEs in the

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metropolis over the past decade. Invaluably, it will further help to ascertain the financial resiliency of the businesses after lowering the risk level of covid 19.

This paper is therefore focused on understanding the current financial position of SMEs in the Sekondi-Takoradi metropolis, and to find out the main environmental factors that contribute to their sustainability or otherwise. Specifically, this paper addresses the following objectives:

- Identify the main internal and external factors that influence SMEs' sustainability in Sekondi-Takoradi.
- Describe the level of SMEs' financial sustainability in Sekondi-Takoradi
- Assess the relationship between the environmental factors and SME financial sustainability in Sekondi-Takoradi.

LITERATURE REVIEW

According to Zabolotnyy & Wasilewski, (2019), financial sustainability is the firm's ability to create value for its owners and maintain business longevity and bearing the risk involve in doing business. This is critical to every SME, considering the high reported failure rate. Key to realize this is profit making which remain the cardinal in measuring business financial sustainability (Burlea-Schiopoiu & Mihai, 2019). This should be measured consistently to ascertain the progress of the business financially (Agyei et al., 2019). It is however important to note that financial sustainability measure is subjective. For instance, it can be measured based on sales growth, increased market share, return on investment and equity (Jayeola (2015) or comparing one's financial performance with the industry's sector aggregation, payment of debt and maximization of returns (Osazefua, 2019), return on investment and product innovation (Long et al., 2018). In sum, the focus of financial stability is ensuring business longevity which is influenced by some internal and external environmental Coleman & Okyere (2016).

According to Kusi et al. 2015; Yartey, 2019; Ye and Kulathungar, (2019) management competencies, capability and skills, experiences and knowledge, access to capital and business competitiveness as well as financial literacy are key internal factors that influence SMEs financial sustainability. Sofyan et al. (2019); Osazefua, 2019 on the other hand have reiterate that maintaining variety of product to customers, generating and retaining profit, literacy level and years in business are critical to SMEs ability to withstand shocks. Other scholars such as Cho et al. (2017); Ahmad et al. (2020) have acknowledged that SMEs are predominantly family owed, and have therefore suggested that family involvement is critical factor in determining SMEs financial suitability. This results from owners' passion and emotional attachment and motivation to keep the business across generations as well as family members support. This could however be detrimental to the business if not well managed Oudah et al. (2018).

On the other hand, regulatory and economic environmental factors, access and ability to apply technology among others have been described as critical external factors that could make or unmake businesses' financially stable (Nyarku & Oduro, 2019). Generally, scholars have reiterate that unfavourable legal and regulatory frameworks, lack of access to external funding as well as political, economic and regulatory challenges are major factors inhibiting SMEs' progress (Bouazza et al., 2015; Yukhanaev et al., 2015). In support, Looijen and Blok, (2018) have posited that lack of or inflexible regulations discourages performance. Besides, access and ability to apply technology has increasingly become critical to SMEs financial sustainability. It is a two-edged sword as it offers significant boost to SMEs sustainability where business owners are able to take advantage of it and vice versa. In particular, it is key to product development and

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promote customer satisfaction (Akaeze, 2016). Besides, it offers solution to increased theft which hinder SMEs sustenance (Nyarku & Oduro, 2019).

Studies by Anane et al. (2013); Ofori-Amanfo et al. (2022) on SMEs found that the financial sustainability of SMEs was very good to a moderate extent. They found managerial, supply chain, operations, and marketing capabilities have significant influence on SMEs' financial performance. Similarly, a study by Bouazza et al. (2015) has found that many SMEs run into bankruptcy few years after their establishment and the issues affecting their growth in Algeria managerial, regulatory and financial challenges as main factors inhibiting SMEs progress Boohene & Boachie-Mensah (2013).

Again, a study by Msomi and Olarewaju (2021) among SMEs in construction, manufacturing, retail, and agricultural in South Africa, found SME owners financial awareness and access, budgeting and accounting skills as key financial sustainability determinants. However, they recommended training programmes in financial literacy for both accounting and non-accounting staff of SMEs. On the other hand, a study in Malaysia by Koe, et al. (2015) found that attitudinal and perceptual factors positively and significantly influenced such tendency. According to them establishing a positive or favorable sustainability attitude and creating attractive sustainable entrepreneurial practices is key to promoting SMEs sustainable.

A study in Zambia, by Choongo et al. (2016) revealed that knowledge of perception of threats to the natural/social environment does not influence sustainable opportunities. Rather, they found altruism towards others as partially influences small business sustainability, while Matinaro et al. (2019) study among SMEs in Taiwan found that the sustenance of the businesses' is largely dependent on an agreement of colleagues in an organization and comprehensive strategic efforts to remain competitive Pelayo & Camarena (2013).

METHODOLOGY

A quantitative research approach was adopted for this study. Since SME owners are often unwilling to give information, a non-probability sampling technique in the form of convenient sampling was adopted in selecting respondents who were willing and ready to give information. Using Bartlett et al. (2001) table for sample selection determination, 250 SME owners (who employ between 1 to 30 workers) out of about 10205 population were sampled as respondents for the study. Close-ended instrument was then used to gather information from the respondents. The two main sections involved were SMEs sustainability influencers and business sustainability measures and a 5point likert scale measure was adopted for both sections Gyimah et al. (2020).

The data was then analyze using descriptive statistics such as mean and standard deviation. It relied on the subjective criteria developed by Padgett and Morgan (2021) and Parasuraman, Zeithaml and Berry (1994) on a scale of measurement 0 – 0.9=strongly disagree; 1.0-1.9= Disagree; 2.0 – 2.9= indifferent (neutral); 3.0-3.9=Agree and 4.0 – 5= strongly agree as the basis for the interpretation of the mean and standard deviation. Finally, the researcher used multiple regression analysis to ascertain the linear relationship between financial sustainability (dependent variable) on one side, and the internal and external factors (independent continuous variable) on the other side. P-values of less than 0.05 were considered statistically significant at a 95% confidence interval Sarbah & Quaye (2021) shows in Figure 1.

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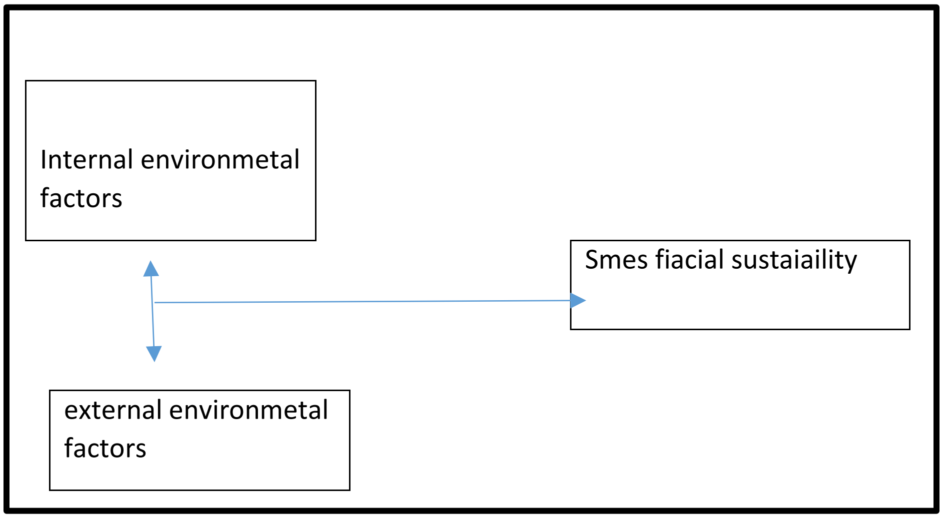

FIGURE 1
MODEL OF SMES BUSINESS SUSTAINABILITY

The model shows the interaction among some internal and external environmental factors, and their relationship with SMEs financial sustainability. Based on the model, this study hypothesize that:

H_o: *There is no significant relationship between the environmental factors and SME financial sustainability in Sekondi-Takoradi.*

H_1: *There is significant relationship between the environmental factors and SME financial sustainability Sekondi-Takoradi.*

RESULTS AND DISCUSSION

Research Results

Table 1
FACTORS THAT INFLUENCE BUSINESS FINANCIAL SUSTAINABILITY

Factors of financial sustainability	Mean	Std. Deviation
Internal factors		
Management skills and experience	4.14	0.88
Owners' available funds	4.19	0.95
Owners' Financial literacy	4.08	0.88
Product uniqueness	3.64	1.04
Years of business operation	3.85	1.04
Retained profit	3.60	0.93
Family members commitment	3.42	1.11
Grand mean	**3.85**	**0.98**
External factors		
Taxes	3.70	1.23

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Payment for operating permit	3.62	1.33
Government financial support	2.13	1.28
Access to debt funding	2.71	1.20
Use of technology	3.34	1.34
Competition	3.47	1.35
Grand mean	**3.20**	**1.29**

Source: Field Data, 2022

Using the scale of measurement 0 – 0.9=strongly disagree; 1.0-1.9=Disagree; 2.0 – 2.9= indifferent; 3.0-3.9=Agree and 4.0 – 5=strongly agree, the study's results reveal that firms' financial sustainability is generally influenced by internal (M=3.85, SD=0.98) and external (M=3.20, SD=1.29) factors shows in Table 1.

Table 2 further explores the significance and the direction of the factors (internal and external) influencing business sustainability. Table 2 provides the regression model for the factors influencing SMEs' sustainability. It shows the variables for the model unstandardised coefficient, t-statistics and the significance of the model.

Table 2
LINEAR REGRESSION ANALYSIS FOR THE FACTORS THAT INFLUENCE FINANCIAL SUSTAINABILITY

Model	Unstandardised Coefficients		t	Sig.
	B	Std. Error		
(Constant)	28.845	3.549	8.127	0.000
Internal factor	0.598	0.150	3.927	0.000
External factor	-0.549	0.114	-4.824	0.000
a. *Dependent Variable: financial sustainability, R-square=.097*				

Source: Field Data, 2022

It can be observe that both internal and external factors significantly influence the financial sustainability of SMEs (p=0.000<0.05). However, the internal factors have positive influenced on the financial sustainability of SMEs (Beta=0.598; p=0.000<0.05). It was further found that external factors negatively influence financial sustainability of SMEs (Beta= -0.549; p=0.000<0.05).

Table 3 presents the descriptive summary of the study results showing the mean (M) and Standard deviation (SD) of the SMES financial sustainability.

Table 3
FINANCIAL SUSTAINABILITY OF SMEs

Financial sustainability	Mean	Std. Deviation
profit generation	3.66	1.16
Sales	3.31	1.19
return on investment	2.85	1.01
market share/demand	3.34	1.12
Payment of liability/debt	3.27	1.16
Payment of employees	3.90	1.17
Cost reduction	3.34	1.13

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Meeting daily business expenditure	3.60	0.94
Cash flow	3.38	1.20
long-term survival	3.89	1.13
Grand mean	**3.45**	**1.12**

Source: Field Data, 2022

The findings suggest that most SMEs had a breakeven financial sustainability or were financially stable (M=.345, SD=1.12). With the exception of return on investment which suggest that respondents were indifferent (M=2.85, SD=1.01), the respondents generally agreed that the businesses are financially sustainable.

DISCUSSION OF THE RESULTS

The statistics suggest that at M=3.85 and Beta=0.598, the internal factors have significant and positive influence on SMEs financial suitability, while the external factors have some level of negative influence on SMEs financial suitability at M=3.20 and Beta= -0.549. These findings reveals the critical role of both the internal and the external factors to SMEs competitiveness as revealed by Matinaro et al. (2019) in their study on business sustainability in Taiwan. Similarly, the study agrees with Bouazza et al. (2015) findings in Algeria which suggest that SMEs are challenged by both internal and external factors. For instance, the higher scores for management skills, availability of funds and financial literacy, largely support the findings by Msomi and Olarewaju (2021) that small businesses are influenced by financial awareness and access, budgeting, accounting skills, and access to finance in South Africa. Moreover, Buowari (2015) also found that SMEs in Nigeria are largely influence by economic intelligence and environmental concern other than industry expertise. Thus Buowari's findings buttress the finding from the study that SMEs are influenced by owners' financial literacy but partly contradict the managerial skills and expertise as critical financial sustainability influencer.

On the issue of SMEs level of financial sustainability, the findings from this study correspond with that of Ofori-Amanfo et al. (2022) as well as Anane et al. (2013) that SMEs in Ghana are doing well with regard to their financial sustainability. At M=.345, the study found the financial performance of SMEs in Ghana as good to the greatest extent. However, the findings from this study disagree with the findings in Sweden, that SMEs have limited returns on investment and unstable income.

CONCLUSION AND RECOMMENDATION

In conclusion, it can be observe that financial sustainability of SMEs are influenced by both internal and external environmental factors. In particular, the internal factors such as management skills and experience, owners' available funds, owners' financial literacy, product uniqueness, years of business operation, retained profit and family members' commitment have significant positive influence on SMEs sustainability, while external factors such as taxes, payment for an operating permit, and use of technology and market competition influences the financial sustainability of SMEs negatively. Moreover, the findings suggest that SMEs generally have good to moderate financial sustainability. Not only are they able to generate profit and increased sales, they are able to meet their debt, cut cost, meet daily business expenditures and

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are assured of the longevity of their business. It is therefore recommended that SMEs should concentrate and improve upon the internal factors since it positively influences their financial sustainability. Also, though the sustainability of SMEs was good, it is recommended that SMEs should work on their return on investment to improve their sustainability. Further studies in other parts of the country is also needed to be able to generalize the results about the country. Finally, even though the study did not directly consider the influence covid 19 on the subject matter, since the study was conducted few months after lowering the covid 19 risk level in the country, further analysis and regular studies are required to monitor the financial sustainability of SMEs and to determine the influence off-peak covid 19 might have had on the responses obtained.

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