Firm Size and Capital Structure Decisions: Evidence from Hotel and Lodging SMEs in Eldoret Municipality, Kenya

Lewis Wakoli Wachilonga

PhD Student at Jomo Kenyatta University of Agriculture and Technology
P.O. Box 4276, 30100, Eldoret, Kenya

E-mail: wachilonga2005@yahoo.com, Mobile: +254722416324

ABSTRACT
The purpose of this paper was to determine the relationship between firm size and capital structure decisions on the development of small and medium enterprises (SME's) in Kenya, with special reference to hotel and lodges in Eldoret municipality .a descriptive survey research was used to carry out the study .Seventy two (72) respondents were sampled the study was guided by the following research questions: what is the relative size of hotel and lodging SME's in Eldoret municipality, what are the financial source preferences of hotel and lodging SME's in Eldoret municipality for financing initial investments, financing ongoing operations and financing future investment, What is the relationship between financial source preference and size of hotel and lodging SME's in Eldoret municipality. Based on the findings, the study established that relationship between firm size and capital structure choice among hotel and lodging SME's in Eldoret municipality considering self financing as the most preferred source of financing during the initial stages of their operation. Bank credit was most preferred for ongoing operations followed by retained earnings and share capital respectively. Future financing of the firm in hotel and lodging sector favored use of internal sources followed by use of debt. The chi- square test showed that there was no statistical significance in linking firm size and financing initial investments by internal sources, debt and common stock. The researcher concluded that there was a relationship between firm size and capital structure preference. There was hierarchical preference for internal sources, debt and common stock issues. The firms in hotel and lodging sector preferred a mix in equal proportions of short term and long term debt to finance its operations. The researcher drew the following recommendations. First, hotel and lodging operators and entrepreneurs should consider internal financing during the initial and final stages of operations and prefer debt as a second alternative in financing ongoing operations. Second, the government through the tourism board and other donor agencies should consider providing incentives to small and medium enterprises by reducing lending interest rates and increase repayment window period.

Key Words: Firm Size, Capital Structure Decisions, Pecking Order Theory, Hotel SMEs

1.0 Introduction.

SME's growth is vital to any economic development (Ghatak ,2011). However, issue of finance has been identified as an immediate reason why businesses in developing countries fail to start or to progress. It is important for firms in developing countries to be able to finance their activities and grow over time if they are ever to play an increasing and predominant role in providing employment as well as income in terms of profits, dividends and wages to households. Growing SME's will also contribute to expanding the size of the directly productive sector in the economy; generating tax revenue for the government; and, all in all, facilitating poverty reduction through fiscal transfers and income from employment and firm ownership.

The Sixth Report about European companies carried out by the European Commission (2000), reveals that the total number of firms existing in the European Union in 1998 mounted up to 19,370,000, from which 99.8% were considered SME's. Moreover, these SME's provided approximately around 66% of European employment and 65% of European companies' turnover. The records for Spain are in line with the European ones: there were 2,591,318 SME's (99.8% of total firms) in 2000, carrying out 79.8% of Spanish employment and 62% of Spanish firm's total sales (DGPYME, 2002). All these figures show the great importance of this category of firms, but not always receiving the joust attention that they really deserve.

Theoretical discourse on the capital structure of the firm originates from the irrelevance propositions of Modigliani and Miller (1958), stating that the capital structure of the firm was independent of its cost of capital, and therefore of firm value. The propositions of 1958 were based on a number of unrealistic assumptions, and in 1963 Modigliani and Miller introduced taxes into the model. This led to the development of the trade-off theory of capital structure, whereby the tax-related benefits of debt were offset by costs of financial distress. Alternative approaches, based on asymmetric information between 'inside' managers and 'outside' investors, include signaling theory (Ross, 1977) and the pecking order theory (Myers, 1984, Myers and Majluf, 1984).

Discussions on capital structure of SME's have included industry effect as a determinant of capital structure (Jordan et al., 1998; Hall et al., 2000). Bolton (1971) argues that industry classifications are more likely to affect the capital structure of SME's given that most of them are unitary firms. It is argued that industry effect is associated with an expected linkage between the existence of tangible assets and levels of debt. This suggests that sectors with strong tangible asset holdings are expected to have higher average debt levels than is evident in sectors associated with intangible or risky assets. However, there has been some controversy and debate concerning the association but consistency within industries to claims that industry is not as important as firm specific between industry and capital structure ranging from comments suggesting differences across industries aspects (Gibson, 2002).

Empirical efforts on factors influencing capital structure have included industry classification as a relevant factor (Abor J, 2007). They found industry effect to be significant although not in every case examined. In comparing the financial structure of Australian and US SME's, Gibson

(2002) found that in Australia, mining and manufacturing firms were much more strongly represented and services were under represented compared with the US data. In both samples, there appeared to be a statistically significant difference in cluster membership according to industry sector.

Short-term debt appeared to be more evident in the wholesale-trade and retail-trade sectors for both samples while there was a lower reliance on such debt in the services sectors. Mackay and Phillips (2003) opine that industry leverage is important since firms in the same industry are exposed to the same technology and therefore are likely to have a similar optimal financial structure. Boateng (2004) also focusing on international joint ventures showed that industries such as textiles, building and construction, mining and exploration have more debt in their capital structure compared to automobile, agriculture, food and transport. In a recent study, Johsen and McMahon (2005) confirmed that industry does appear to influence short-term debt, particularly for the construction and wholesale trade industries and possibly for cultural and recreational services. They also found that industry has an effect on long-term debt, particularly for manufacturing, retail trade, and transport and storage and possibly for the wholesale trade and finance and insurance industries. The capital structure of SME's is likely to be determined by a number of factors including age, size, assets structure, profitability, growth, and possibly industry (Hall et al., 2000). We, therefore, hypothesize that there are differences in the capital structures of SME's across industries.

Firms with a high demand for additional capital may resort to a greater variety of sources of funding than firms with lesser needs. For firms possessing a high-level of no-lien fixed assets, debt is the preferred choice to fund positive NPV projects when internal funding is insufficient, according to the POT. High growth firms with insufficient internal funding and inadequate non-collateralized fixed assets are less averse to ceding control, and resort to external equity from new investors (Cressy and Olofsson, 1997, Hogan and Hutson, 2005). This may be especially true for firms engaged in a high level of intangible activity relative to their turnover (Berggren et al, 2000). Therefore, we propose that:

Lodging companies are capital intensive, as they require huge capital at both investment and operating phases. Since assets of lodging companies mostly consist of fixed assets, share of long-term debt and owners' equity naturally increase. Furthermore, because of the structure of the industry, lodging companies are highly sensitive to systematic risks. Therefore, lodging companies face high levels of operating and financial risks (Andrew and Schmidgall, 1993). All these characteristics make it important to determine the composition of capital structure and the factors affecting leverage decisions.

1.2 Statement of the Problem

One of the major issues encountered by fund managers today is not just procurement of funds but also their meaningful deployment to generate maximum returns. Sources of funds are generally the same across all businesses but then why is it that some businesses are able to do better than the rest. If the logic of outstanding performance is a viable business idea, then why

is it that some companies still fail to achieve success even with ample funds and the right business idea? The above debate clearly implies that there is something beyond financial success of business besides great ideas and good geographic presence. Capital structure is one of the important determinants of a firm's success. This study aimed at analyzing the capital structure decision of selected hotel and lodging SME's relative to size in Eldoret Municipality and how this has had an impact on their overall profitability.

1.3 Research Questions

To achieve the overall objective of analyzing capital structure choice relative to size of hotel and lodging SME's in Eldoret Municipality, the study was guided by the following research questions:-
a)   What is the relative size of hotel and lodging SME's in Eldoret Municipality?
b)   What are the financial source preferences of hotel and lodging SME's in Eldoret
     Municipality for financing initial investments, financing ongoing operations and financing
     future investments?
c)   What is the relationship between financial source preference and size of hotel and
     lodging SME's in Eldoret Municipality?

1.4 Significance of the study

The findings of the study will be useful to hotel and lodging managers, owners, shareholders and government policy makers. Managers in this industry will be able to make guided choices of capital structure to remain competitive while the owners and shareholders will be able to make appropriate choices for sustainable growth and profitability. The government will benefit in formulating palatable reforms and monetary policies to enable SME's in this industry to access cheap funds either through equity or debt.

1.5 Scope and Delimitation of the study.

The study was carried out in Eldoret Municipality because there is observed mushrooming growth in the hotel and lodging industry. This is attributed to strategic location of the Airport, conducive high altitude climate for foreign athletes and Eldoret Town as a growing business hub. Hotel and lodging SME's with employees above five and having operated for over a year will be considered. SME size and capital structure preference will be addressed.
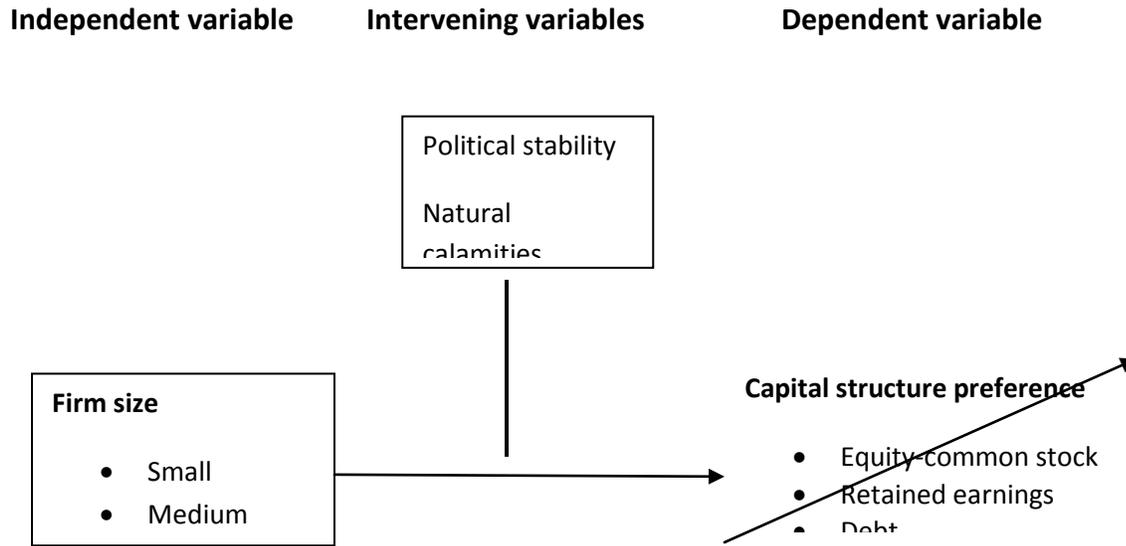
1.6 Conceptual Framework

Independent variable   **Intervening variables**   **Dependent variable**

Fig 1.1 Conceptual Frameworks

Source: Author 2013

The size of the SME will be categorized by the size of employees of the hotel and lodging firm. Small size will refer to employees between five and twenty-five while medium will refer to hotel and lodging with employees above twenty-five but below fifty. Controlling for Political stability and natural calamities, SME's in the hotel and lodging will make choices among equity (common stock), retained earnings and debt as preferred sources of capital.

2.0   Literature Review

According to trade-off theory, as big companies better diversify risk and have lower level of default risk, they tend to use debt in financing setup investments (Rajan and Zigales, 1995; Jaggi and Gül, 1999). On the other hand, according to pecking order theory, as companies become bigger, they provide more information and face less asymmetric information problem. Thus, cost of equity of big companies is less than that of smaller companies. As a result, pecking order theory suggests that as companies get bigger they tend to depend on equity rather than debt (Frank and Goyal, 2003). Trade-off theory conjectures that as big companies are credible in money markets and they have lower levels of agency cost, they depend on debt in financing their ongoing operations (Jaggi and Gül, 1999; Bhaduri, 2002). However, pecking order theory asserts that since big companies have sufficient levels of internal sources, they tend to use internal sources at the first place. Debt takes the second place and issuing common stock is the last resort (Petersen and Rajan, 1994; Akhtar and Oliver, 2005).

Trade-off theory maintains a positive relationship between firm size and leverage. Big companies are credible in money markets and their agency cost of debt is at a lower level. Thus, big companies are expected to intensively use debt (Rajan and Zigales, 1995; Jaggi and Gül, 1999; Bhaduri, 2002; Brierly and Bunn, 2005). On the other hand, pecking order theory suggests that big companies have sufficient levels of internal sources and lower cost of equity. As results, they incline to use retained earnings as the primary financing source. Any excess financial needs are met by debt and they issue common stocks at the last step (Frank and Goyal, 2003; Mira and Gracia, 2003; Daskalakis and Psillaki, 2008).

Trade-off theory asserts the existence of a target debt ratio. Accordingly, companies should determine an optimal target capital structure in order to balance benefits and costs of using extra debt. Moreover, big companies are assumed to determine target debt ratio more often than small companies do. In this sense, Graham and Harvey (2001) find that big companies have more rigid target debt ratios than small and medium sized companies. However, pecking order theory conjectures that shifts in the debt levels of companies are independent of predetermined capital structures. In other words, companies do not have target leverage and realized leverage ratios are determined by the difference between investments and retained earnings (Myers and Majluf, 1984; Rajan and Zingales, 1995).

Ang et al (1997) determine bank credits, retained earnings and trade credits as the main sources of financing for publicly traded Indonesian firms. Graham and Harvey (2001) find that financial managers take into account flexibility and credit ratings when they issue bonds. On the other hand, dilution effect and recent price increases are taken into consideration during common stock issues. As a result, both pecking order and trade-off theories seem valid for US firms. Bancel and Mitto (2004) determine financial flexibility, credit rating and tax advantage of debt as the major variables that affect debt policy of companies in 16 European countries. Brounen et al. (2005) find that financial managers in Netherlands, UK, France and Germany establish a target debt ratio. In this context, they assert that tradeoff theory is valid for these countries.

Frielinghaus et al. (2005) maintain that South African companies prefer more debt in early stages, while they opt for internal sources as the life stages advance. They conclude that this finding favors pecking order theory. Beattie et al. (2006) find that most of the publicly traded small and medium sized UK firms do not determine a target leverage ratio. On the other hand, the number of big sized firms that specify a target leverage ratio seems to be larger. Grundströmer and Gustafsson (2007) report financial flexibility, long-term capacity and credit rating as the most important factors that affect capital structure decisions of publicly traded Swedish companies.

Although the determinants of capital structure are well documented, there is little work on the capital structure of firms in the tourism industry. Kwansa and Cho (1995) investigate the impact of the trade-off between financial distress costs and tax earnings in the US restaurant industry. They report a significant bankruptcy cost effect on capital structure and firm value. Upneja and Dalbor (1999) detect a positive relationship between before and after tax rates of US restaurant

companies and their leasing activities. Özer and Yamak (2000) examine financial sources used by lodging companies with less than 100 rooms located in Istanbul. They find that lodging companies appear to use internal funds and debt, respectively, in their investment stage. Retained earnings appear to be the major source of funds in the operating stage. Upneja and Dalbor (2001) indicate that debt ratio is positively related to growth opportunities, firm quality, and share of fixed assets for publicly traded US lodging companies. On the contrary, non-debt expenses and debt ratio seem to be negatively related. Moreover, firm size and debt ratio do not seem to share a significant relationship. Nuri and Archer (2001) report higher debt ratios for UK lodging industry than the debt ratios for UK retail industry. They point out that the trade-off theory rather than the pecking order theory is more consistent with the lodging and retail industries in the UK. Dalbor and Upneja (2002) suggest that long-term debt usage shares a positive relationship with risk and firm size in publicly traded US restaurant firms. Furthermore, firm quality and growth opportunities, are found to be related negatively with long-term debt usage.

Serkan et al (2011) detected a statistically significant relationship between firm size and common stock issues. They further observed a significant linkage between firm size and personal debt. However, financing preferences for setup investments, ongoing operations and future investments seem to be independent from firm size. Moreover, there was a hierarchical preference for internal sources, debt and common stock issues. This sequential order of financing sources is compatible with pecking order theory. Other findings are also related with the validity of pecking order theory in explaining the capital structures of Turkish lodging companies.

Three points call for pecking order theory. First, lodging companies prefer internal sources in financing their investments. Second, no pervasive target debt ratio was observed among lodging companies and third, among the minority that had a target debt ratios, big sized lodging companies determined lower target debt ratios (ibid). Moreover, big lodging companies appear to depend on short-term debt. The reason is that short-term debt does not require collateral and contract. This finding is in line with pecking order theory. On the other hand, we observe a statistically significant relationship between firm size and determining a target debt ratio. This finding supports trade-off theory. Since big companies could reach money markets more easily, tendency of determining target debt ratios is stronger for bigger companies. Finally, big lodging companies appear to use incentives more heavily than small companies do. This finding necessitates a thoroughly review of incentive policy for tourism industry.

3.0 Research Design and Methodology

The study will adopt a descriptive survey design. A research design is a conceptual structure within which the research will be conducted (Kothari, 2009). A descriptive design reports the current status of events by collecting and analyzing data.The target population included all established hotel and lodging firms operating in Eldoret Municipality. A pre-survey identified a total of 72 hotel and lodging.The population was be stratified into regions, Kisumu road, Kitale road, Iten road and Town centre. A random sampling technique will be employed to pick a

sample of 22 hotels comprising 30% of the population. In random sampling method, each item in the population has the same probability of being selected as part of the sample as any other item. To do this the researcher used a random number generator or simply put each number from 1 to 72 on a slip of paper in a hat, mixing them up and drawing out 22 numbers. Random sampling can be done with or without replacement. If it is done without replacement, an item is not returned to the population after it is selected and thus can only occur once in the sample.

A detailed semi structured questionnaire was used to collect data. According to Kothari, (1999) the questionnaire tool is most appropriate since a quantitative data capture is a necessity, which can only be obtained directly from the respondents. Closed-ended questions in the questionnaire were used to help to standardize and quantify responses from the research. The open-ended questions in the questionnaire were meant to ensure that an in-depth data that is detailed and explorative of all aspects of the variable(s) under study was obtained. The questionnaires were administered by the researcher to the owners/ managers of the selected hotels in the Municipality. Confidentiality of the collected information will be emphasized by the researcher to the respondents. Completed questionnaires were sealed in an envelope and collected by the researcher. Completed questionnaires were checked, cleaned and coded by the researcher in a computerized package then analyzed and summarized in frequency tables, Pie charts and figures. The relationship between firm size and capital structure choice was established through Pearson's Correlation test at 95% significance level.

4.0 Research Findings and Discussion

Among the 22 targeted respondents, 18(82%) completed the questionnaire. Among them, 9(40.9%) were female, 13(59.1%) were male and 8(44.4%) were aged between 29-39 years old. More than half 12(54.5%) had secondary level of education and half 11(50%) had more than 25 employees in their SME's as indicated in table 4.1. Female owners/ managers constituted one third of the respondents indicating that gender equity according to the Kenyan new constitution requirement of women empowerment.

Table 4.1: Socio-demographic characteristics

Characteristic	Frequency (%)
Gender	
Male	13(59.1)
Female	8(40.9)
Age-group	
18-28	2(9.0)

29-39	8(36.4)
40-50	8(36.4)
>50	4(18.2)
Level of education	
Secondary	12(54.5)
Tertiary	10(45.5)
No. of employees	
≤10	4(18.2)
11-25	8(36.4)
>25	10(45.4)

Source: Field data, 2013.

SME characteristics

More than a third 7(38.9%) of the respondents reported the size of their hotels as medium while a third reported as small 6(33.3%) as indicated in figure 4.1
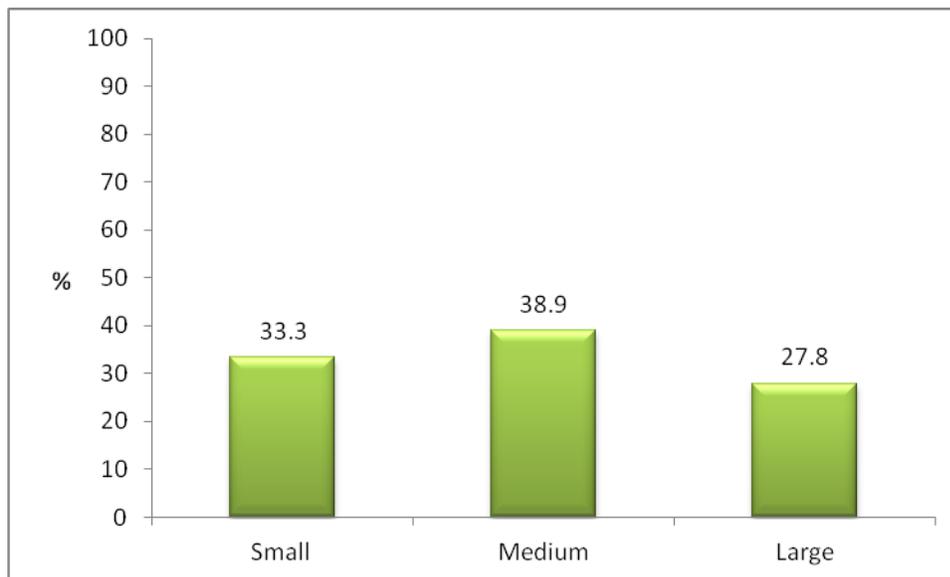

Fig 4.1: Hotel size
Source: Field data, 2013

Number of Employees

As indicated in figure 4.2, half 9(50%) of the respondents reported to have more than 25 employees. Only 2(11%) reported to have less than 10 employees
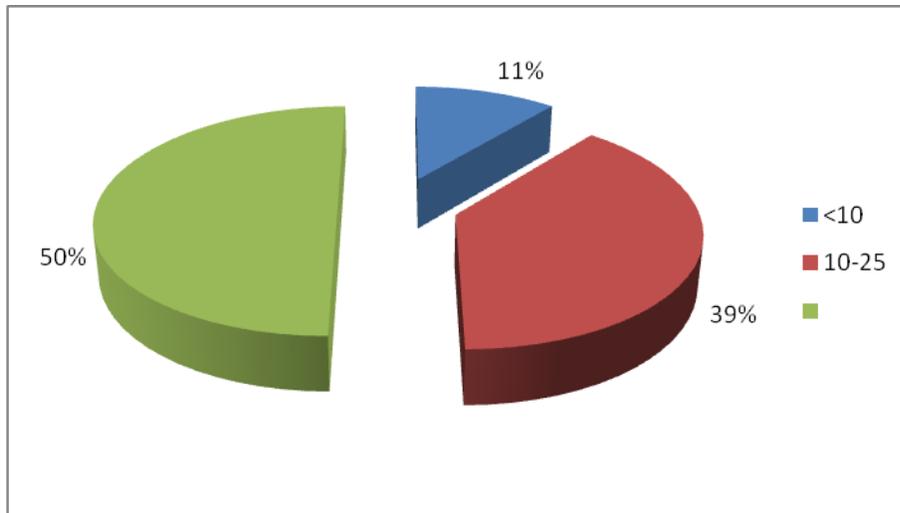

Fig 4.2: Number of employees
Source: Field data, 2013

Number of branches

The researcher sought to establish if the firm had branches. Only 4(22%) of the respondents reported to have more than one branch as indicated in figure 4.3
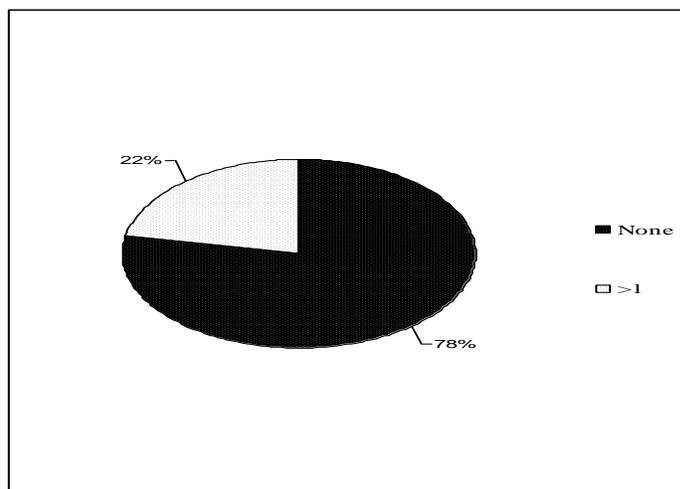

Fig 4.3: Number of branches
Source: Field data, 2013

On average the hotels had been in operation for the last 10.9 years. Growth in hotel and lodging industry has immense financial implications, only 4(22%) had more than one branch and have been on operation for the last 10.9 years.

Financial source preferences for financing initial investments, financing ongoing operations and financing future investments.
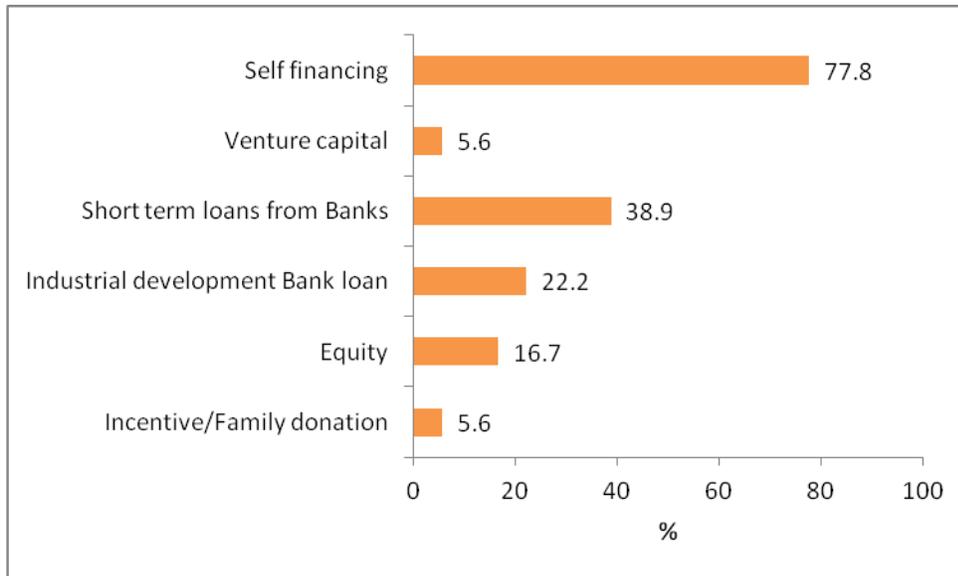

Fig 4.4: Financial source preferences for during initial stages of operation
Source: Field data, 2013

Financial source preferences at initial stages of operation

As indicated in figure 4.4, more than three quarters of the respondents 14(77.8%) reported to prefer self financing as a source during the initial stages of operation. A good number 7(38.9%) preferred short-term loans from banks while 4(22.2%) preferred industrial development bank loans. This finding is consistent with the findings of Karadeniz *et al*.,(2011), who observed that independent of the size of the company, equity is the major source of funds during the initial stage. Bank credit takes the second place. This finding suggests that financing source preferences of hotel and lodging SME's during the initial stage is not affected by size. Since investments are mostly finances by internal sources and external sources, financing initial stage obey pecking order theory.

Financial source preferences for financing ongoing operations
For ongoing operations, 16(88.9%) preferred bank credit, 8(44.4%) share capital while 7(38.9%) preferred retained earnings as indicated in figure 4.5. This observation is consistent with the

findings of Karadeniz (2011) who reported that bank credit is the most important financing source of medium- sized hotel and lodging SME's. Since internal sources are not opted for, hotel and lodging SME's do not obey pecking order theory in financing their ongoing operations.
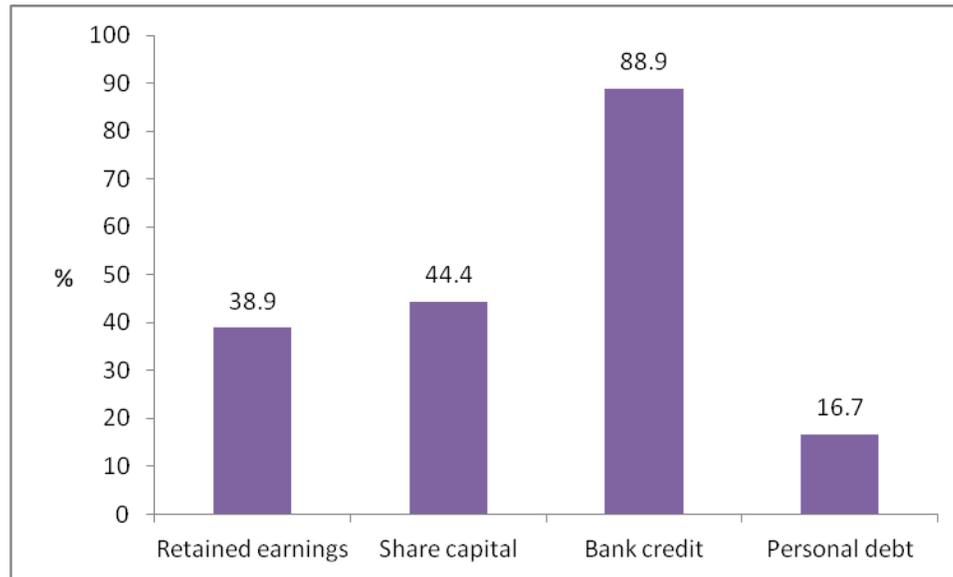

Fig 4.5: Financial source preferences for financing ongoing operations
Source: Field data, 2013

Financial source preferences for financing Future investments Source

With regards to source of financing future investments, majority 17(94.4%) preferred internal sources, 16(88.9%) debt while 8(44.4%) preferred common stock as the source (figure 4.6). Since debt takes second place, this finding seems to support pecking order theory. In ranking financial sources used for meeting fund requirements due to size of hotel and lodging SME's, preference for internal source as the primary financing source. Debt and issuing common stock were the following financing alternatives. This finding is common among different firm sizes and constituent with pecking order theory.
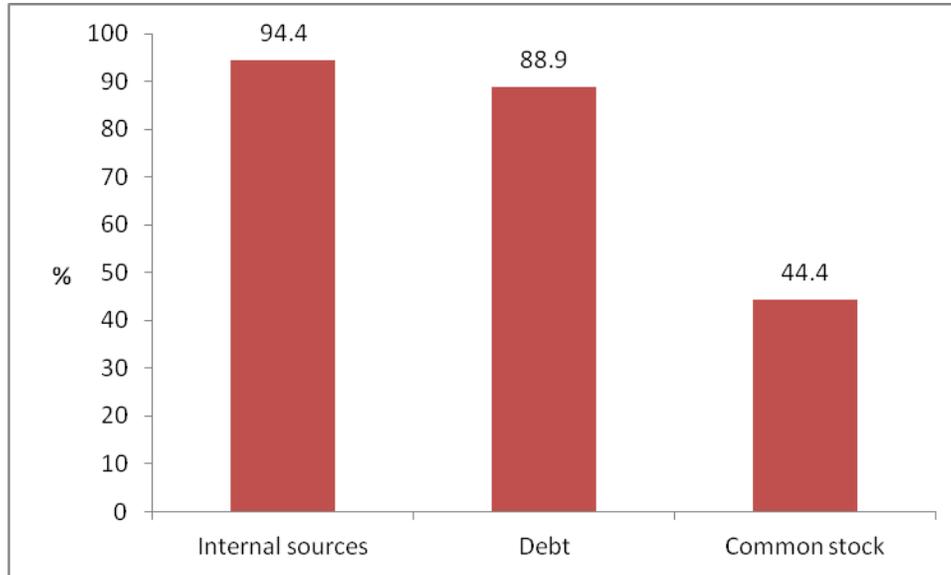
Fig 4.6: Financial source preferences for financing Future investments
Source: Field data, 2012

Financial source preferences for financing Future investments

On ranking preference sources of financing, 18(100%) most preferred internal financing, 17(94.4%) debt while 9(50%) common stock as indicated in figure 4.7
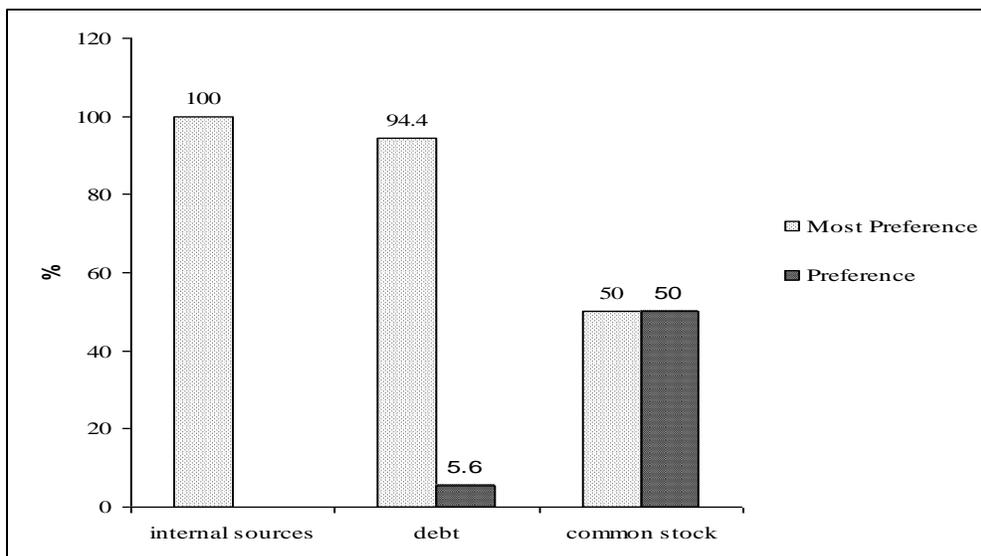

Fig 4.7: Ranking preference source of financing
Source: Field data, 2013

Ranking preference source of financing

More than a third of the respondents 8(44%), preferred long-term and short-term used equally as hotels debt maturity. A fifth 4(22%) preferred short-term while 5(28%) preferred long-term as in figure 4.8
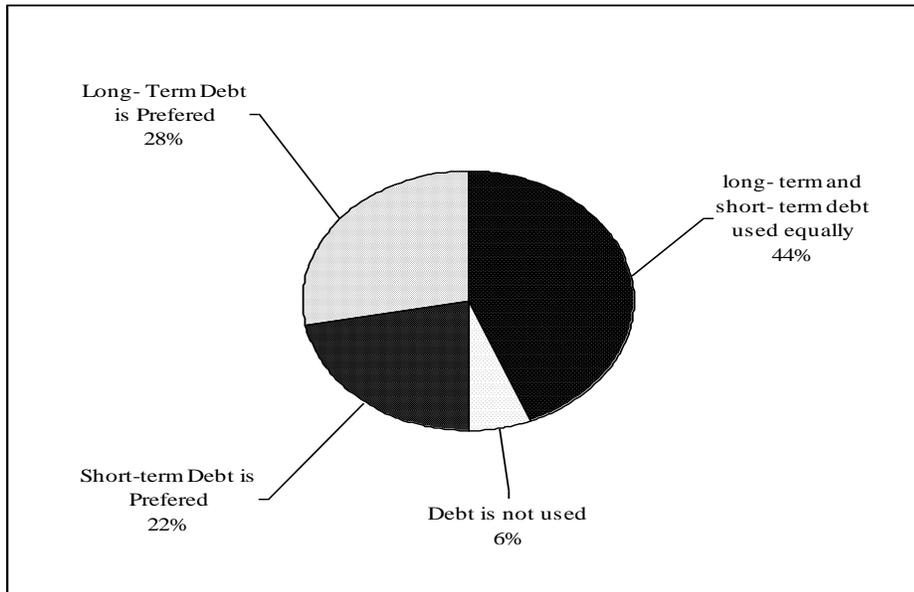

Fig 4.8: Hotel debt maturity preference
Source: Field data, 2013

Hotel debt maturity preference

Only 8(44%) of the respondents purposed to determine a given target debt ratio to asset ratio in their firm. The mean proportion of debt to equity ratio targeted by the hotels was 45%.

Relationship between financial source preference for initial stage of operation and Hotel size
Table 4.2: Relationship between financial source preference for initial stage of operation and Hotel size

Source	Hotel/lodging size			χ2-value	p-value
	Small	Medium	Large		
Internal	5(83.5)	7(100)	5(100)	2.118	0.347
Debt	5(83.5)	6(85.7)	5(100)	0.884	0.643
Common stock	3(50)	4(57.1)	1(20)	0.742	0.419

Source: Field data, 2013

Table 4.2 summarizes the chi- square test designed to examine the relationship between firm size and financing preference during the initial stage. The p values in the table reveal that there were no observed statistically significant linkages between firm size and financing initial investments by internal, debt and common stock. (p=0.347, p=0.643, p=0.419 respectively).

Relationship between financial source preference for ongoing operations and Hotel size

Table 4.3 Relationship between financial source preference for ongoing operations and Hotel size

Source	Hotel/Lodging size			χ2-value	p-value
	Small	**Medium**	**Large**		
Retained earnings	2(33.3)	2(28.6)	3(60)	1.329	0.514
Share capital	2(33.3)	4(57.1)	2(40)	0.747	0.671
Bank credit	6(100)	5(71.4)	5(100)	3.536	0.171
Personal debt	1(16.7)	2(28.6)	0(0)	1.724	0.424

Source: Field data, 2013

Table 4.3 indicates that there is snot any statistically significant relationship between size and financing ongoing operations by retained earnings, share capital, bank credit and personal debt. (p=0.514, p=0.671, p=0.171, p=0.424 respectively).

Relationship between financial source preference for future investment and Hotel size

Table 4.4: Relationship between financial source preference for future investment and Hotel size

Source	Hotel/Lodging size			χ2-value	p-value
	Small	**Medium**	**Large**		
Incentive/family donation	0(0)	1(14.3)	0(0)	1.644	0.435
Equity	1(16.7)	0(0)	2(40)	3.360	0.186
Industrial dev. Bank loan	2(33.3)	1(14.3)	1(20)	0.698	0.705

Short term bank loans	4(66.7)	3(42.9)	0(0)	5.176	0.075
Venture capital	0(0)	1(14.3)	0(0)	1.644	0.435
Self financing	5(83.3)	6(85.7)	3(60)	1.277	0.528

Source: Field data, 2013

As indicated in tables 4.2-4.4, there was no significant relationship between financial source preference and hotel/lodging size (p>0.05). The p- values in table 4.4 reveal that there is no relationship between firm size and financial preference for future investments.

5.0 Summary of Findings, Conclusion and Recommendation
5.1 Summary of Findings

This study sought to establish the relationship between firm size and capital structure choice among hotel and lodging SME's in Eldoret Municipality. A response rate of 90% was achieved. Half of the firms were managed by managers and half by owners. Female respondents constituted one third of the total respondents. Over one third of the firms had above 25 employees. 4(22%) reported to have more than one branch. Self financing was the most preferred source of financing during the initial stages of operation hence obeying pecking order theory. Bank credit was most preferred for ongoing operations followed by retained earnings and share capital respectively. Future financing of the firm in hotel and lodging sector favored use of internal sources followed by use of debt which support pecking order theory. The chi-square test showed that there was no statistical significance in linking firm size and financing initial investments by internal sources, debt and common stock. Similarly, there was no significant relationship between firm size and ongoing operations by retained earnings, share capital, bank credit and personal debt.

The study also revealed that there was no statistical significance in relationship between firm size and preference for future investments. Preference for internal sources of financing was the primary financing source in financial source ranking. Debt was second followed by common stock. This finding was in support of the pecking order theory. However, the study finding observed that the mix of long term and short term debt was most popular and the mean target debt ratio to asset ratio was set at 45%.

5.2 Conclusion

The main objective of the study was to establish the relationship between firm size and capital structure preference. The survey results suggest that internal sources of financing during the initial or final stages of operation was most preferred followed by debt supporting the pecking order theory.

Similarly, supporting the pecking order theory was the preference of debt in financing investment in the second stage of the operation. Financing preferences for set up investments, ongoing operations and future investments seemed to be independent from the firm size in the hotel and lodging SME's. There was hierarchical preference for internal sources, debt and common stock issues. This sequential order is compatible with pecking order theory. The firms in hotel and lodging sector preferred a mix in equal proportions of short term and long term debt to finance its operations.

5.3 Recommendations.

Based on the summary of findings and conclusion of the study, the researcher drew the following recommendations. First, hotel and lodging operators and entrepreneurs should consider internal financing during the initial and final stages of operations and prefer debt as a second alternative in financing ongoing operations. Second, the government through the tourism board and other donor agencies should consider providing incentives to small and medium enterprises by reducing lending interest rates and increase repayment window period.

5.4 Suggestion for Further Research.

A similar research can be done with a large sample size or a comparative study between SME's in different sectors.

REFERENCES

Abor J, (2007),"*Industry classification and the capital structure of Ghanaian SME's",*
    Studies in Economics and Finance, Vol.24 Iss: 3 pp. 207 – 219

Andrew, P., Schmidgall, R. (1993), *Financial Management for the Hospitality Industry*.
    AH&MA:Washington DC.

Berggren, B., Olofsson, C. & Silver, L., 2000, '*Control Aversion and the Search for*
    External Financing in Swedish SME's', *Small Business Economics* 15, 233-242.

Boateng, A. (2004), "*Determinants of capital structure. Evidence from International joint*
    Ventures in Ghana", International Journal of Social Economics, Vol. 31 Nos 1/2, pp. 56-
    66.

Bolton Committee (1971), *Report of the Committee of Inquiry on Small Firms*,
    Cmnd4811, HMSO, London.

Cressy, R. & Olofsson, C., 1997, '*The Financial Conditions for Swedish SME's: Survey*
    and Research Agenda', *Small Business Economics* 9, 179-194.

Dirección General de Política de la Pequeña y Mediana Empresa, 2002, *"Las PYME en*

España 1996/2000", Colección Panorama Pyme 01, Dirección General de Política de la Pyme, Secretaría de Estado de Economía, de la Energía y de la Pyme, Ministerio de Economía

European Observatory for SME's, 2000, *"Sixth Annual Report"*, Report submitted to Directorate General XXIII of the Commission of the European Communities

Fama, E. and French, K. (Spring 2002), "Testing Tradeoff and Pecking Order Predictions About Dividends and Debt," Review of Financial Studies 15, 1-37.

Ghatak, A. (2011), *"A study on the determinants of capital structure of SME'S Manufacturing Sector Organizations in India";* Research Journal of Commerce and Behavioural Science, Volume: 01, Number: 02

Gibson, B. (2002), *"An international comparison of small firm financial structure council for small business"*, paper presented at 47th World Conference, San Juan, Puerto Rico June 16-19, 2002, ICSB, 2002-031.

Hall, G.; Hutchinson, P. and Michaelas, N., 2000, *"Industry effects on the determinants of unquoted SME´s capital structure"*, International Journal of the Economics of Business, **7** (3), 297-312.

Hogan, T. & Hutson, E., 2005, *'Capital Structure in new Technology-Based Firms: Evidence From the Irish Software Sector*.' *Global Finance Journal* 15, 369- 387.

Johsen, P.C. and McMahon, R.G.P. (2005), *"Cross-industry differences in SME financing behaviour"*, Journal of Small Business and Enterprise Development, Vol. 12 No. 2, pp. 160-77.

Jordan, J.; Lowe, J. and Taylor, P., 1998, *"Strategy and financial policy in UK small firms"*, *Journal of Business Finance & Accounting*, **25** (1) & (2), January/March, 1-27.

Mackay, P. and Phillips, G.W. (2003), *"How does capital industry affect firm financial structure*?" Review of Financial Studies, Vol. 18 No. 4, pp. 1433-66

Miller (1977). "Debt and Taxes",The Journal of Finance, http://ideas.repec.org/a/bla/jfinan/v32y1977i2p261-75.html

Myers, S. C. & Majluf, N. S., 1984, *'Corporate Financing and Investment Decisions When Firms Have Information That Investors do not Have'*, Journal of Financial Economics June, 187-221.

Myers, S. C., 1984, '*The Capital Structure Puzzle*', *The Journal of Finance* 39, 575-592.