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CORPORATE STRATEGY AND CAPITAL STRUCTURE : CASE OF SMALL AND MEDIUM SIZE ENTERPRISES IN YAOUNDE

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DEDICATION

TO MY FAMILY

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RESUME

Le besoin d'une entreprise pour une stratégie d'entreprise efficace et adaptée est plus grand que jamais en raison de la concurrence féroce et croissante dans le paysage commercial actuel. L'objectif principal de cette recherche est de montrer la relation qui existe entre les stratégies d'entreprise et la structure du capital des petites et moyennes entreprises (PME) dans certaines des entreprises enregistrées au Cameroun, à Yaoundé précisément. À cette fin, nous appliquons un panel de technique d'estimation adoptée pour cette étude était la technique des moindres carrés ordinaires (MCO) en raison de la nature dynamique de la résilience. L'estimation MCO pour être valide exigeait que: l'espérance du terme d'erreur soit zéro, la distribution est normalement distribuée, pas d'auto-corrélation, pas d'hétéro-skédasticité et pas de multicolinéarité. Les résultats de la recherche montrent que les PME de Yaoundé sont engagées dans la stratégie d'entreprise. Plus de 70% des répondants étaient d'accord ou tout à fait d'accord que cela avait été fait dans leur organisation. Les résultats de la régression ont révélé que la stratégie d'entreprise augmente la structure du capital des PME à Yaoundé. Les chercheurs recommandent à cet effet les PME cibles qui, outre le risque associé au coût de l'augmentation de la structure du capital des entreprises, en particulier le financement par emprunt, l'incidence fiscale et la faillite devraient également être prises en considération.

Mots clés : Structure du capital et stratégie d’entreprise

ABSTRACT

A company's need for an effective and suitable corporate strategy is higher than ever due to fierce and increasing competition in the current business landscape. The main objective of this research is to show the relationship that exists between the corporate strategies and the capital structure of Small and Medium Size Enterprises (SMEs) in some of the registered enterprises in Cameroon, Yaoundé precisely. For this purpose, we apply a panel of technique of estimation adopted for this study was the Ordinary Least Square (OLS) technique due to the dynamic nature of resilience. The OLS estimation to be valid required that: the expectation of the error term is zero, the distribution is normally distributed, no auto- correlation, no hetero-skedasticity and no multi-colinearity. The results of the research show that, that SMEs in Yaoundé are engaged in Corporate Strategy. More than 70% of respondents either agreed or strongly agreed this was done in their organisation. The regression results revealed that Corporate Strategy increases the capital structure of SMEs in Yaoundé. This could be because Corporate Strategy improves on the efficiency of policy application of SMEs in Yaoundé thereby positively impacting on the key elements of capital structure. The researchers to this effect recommend the target SMEs that, apart from the risk associated with the cost of increasing the capital structure of enterprises, especially debt finance, tax incidence and bankruptcy should also be taken into consideration.

Key words: Capital Structure and Corporate Strategy

LIST OF ABBREVIATIONS

ANOVA: Analysis of Variance

CS: Corporate Strategy

DS: Diversification Strategy

EF: Equity Finance

FOGAPE:

GDP: Gross Domestic Product

ICT: Information and Communication Technology

ILO: International Labor Organization

IN: Integration

IT: Internationalization

MCO: Moindres Carres Ordinaires

ME: Medium Enterprises

NPVs: Net Present Values

OLS: Ordinary Least Square

PME: Petit et Moyenne Entreprise

POT: Pecking Order Theory

RBV: Resource Based View

SE: Small Enterprises

SME: Small and Medium Size Enterprises

TOT: Trade-Off Theory

VIF: Variance Inflation Factor

VSEs: Very Small Enterprises

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GENERAL INTRODUCTION

1. CONTEXT AND JUSTIFICATION

The business world is becoming more and more competitive and companies are forced to align their strategies to attain more focused approaches, in order to increase their concentration of core businesses and cutoff unprofitable operations and/or divisions (Kent, et al., 2014). An increasing number of companies are selling off so called non-core business operations while also launching cost-cutting programs in order to maintain long-term competitiveness and survival in their specific industry (Kent, et al.,2014).Yet, in order to remain long-term profitable, accompany needs to focus on growth since the growth of market shares/sales etc. are means to achieve long-term profitability(Varaiya,etal.,1987). The small and medium size enterprises (SMEs) segment, defined by the European Commission (2016) as companies ranging between a turnover of €2million and €50million, is further a highly competitive segment with increasing internationalization (Rubio&Aragón,2009). This puts pressure on the actors to grow and have suitable strategies for increased profitability and growth (Rubio& Aragón, 2009).

These types of strategic decisions to become more profitable and grow are parts of a company's corporate strategy; defined as the scope and direction a specific firm is aligned towards in order to achieve its long-term goals (Johnson,et al.,2007). Conclusively, the chosen strategy sets the core means that the company uses in order to achieve its set of long-term objectives (Dransfield, 2001). Thus, it could be said that an effective and well-planned corporate strategy has never been more important and more challenging than in today's tough global competition (Stanleigh, 2015). However, the chosen strategy cannot be executed without the necessary amount of funding. Firms that for, instance has chosen to focus on market growth will always require a certain amount of financing in order for the firm to achieve this objective (Forrester, 1986).

Therefore, another vital part of a firm's strategy is its capital structure, defined as the mix of a company's assets, specifically its mix of financial liabilities (i.e. debt) and equity (Berk&DeMarzo, 2014; Koller, etal., 2010). In other words, the capital structure determines the type of securities the firm needs to issue, in order to assess its chosen strategy, such as funding commenced investments with either debt and/or equity in order to enable market growth for instance (Lang,et al.,1996). Consequently, the debt- holders and equity holders are generally the main types of investors in a company. However, there will always be a

symmetrical information costs within a company (Koller, et al., 2010). Therefore, the pecking order theory can to some extent explain the way a company aligns their strategy in terms of funding operations and investments in order to minimize easy metric information (Berk & DeMarzo, 2014; Koller, et al., 2010).According to this theory, a company should firstly prioritize internal financing, followed by external debt and lastly raise capital with external equity (Myers&Majluf, 1984). However, another important theory in relation to a company's capital structure is the trade-off theory, which addresses that a company has to find the right balance between debt and equity in order to balance benefits (e.g. interest tax shield) and costs (e.g. bankruptcy costs)with leverage (Frank&Goyal,2005).

Thus, a dilemma for every company is to find a strategy with a suitable balance between debt and equity in order to increase and maximize the company's value in a sustainable way (Berk&DeMarzo, 2014; Koller,et al., 2010; Singh,et al., 2002). Consequently, the capital structure partly regulates a company's flexibility in terms of strategies, and which corporate strategies that can be utilized in order to be resistant to internal and external pressures and enable firm-growth (Koller, et al., 2010). Rocca, et al., (2008) further state that "*a good integration between strategy and finance dimensions can be tantamount to a competitive weapon*". Yet, Ward and Grundy (1996) argue that the corporate strategy and financing are, with very few exceptions, in "*schizophrenic tension*", meaning that they are often directly opposing each other. Furthermore, as researchers have concluded that the capital structure and the strategic management tend to depend on very different parameters and paradigms, it can be argued that the relationship between them is highly complex (Barton &Gordo, 1983; Bettis, 1983).In particular, the corporate strategy tends to be affected by current market conditions, the different company stakeholders, the amount of assets or funds which are available, and competitors' decisions/investments etc. (Johnson, et al.,2007; Ward & Grundy, 1996).On the other hand, the capital structure is often influenced by more specific parameters, such as liquidity constraints, institutional structures, tax regimes and banking relationships (Titman &Wessels, 1988). Equity and debt which make up the capital structure of every company must be considered as financial instruments as well as strategic instruments of corporate governance. In most SMEs, financing decisions can be a great concern to the creation of value due to the fact that; there is conflict of interest between managers and firms financial stakeholders. To summarize, the potential interaction between managers, financial stakeholders, and non-financial stakeholders influences the capital structure, corporate governance activities and value creation in SMEs. A good integration between corporate strategy and capital structure dimensions can be a good tool to a competitive weapon.

In corporate finance discipline capital structure has been the centre of focus in different researches. Capital structure theoretical dialogues initiated from suggestions of Modigliani and Miller (1958). They stated that cost capital and value of the firms is independent to capital structure (Bhaird, 2010). In 1958 the suggestion on capital structure was based on unrealistic assumption while in another research by Modigliani and Miller (1963) the effect of taxes was incorporated into the model. This resulted in the creation of the trade off theory of capital structure. According to trade off theory tax related benefit is being offset by the financial distress cost (Bhaird, 2010).

Corporate strategy basic concern and apprehension is how a firm and an organization builds and create value across its business units. Corporate strategy enables a corporation to create and increase its competitive advantage and recommends a corporation how it can create value across business units (Collis, 2013). Corporate strategy compels a corporation to invest in values resources, craft business portfolio, structural design of the corporation and various corporation‘s function in order to share activities or transfer skill across business activities (Collis, 2013). Corporate strategy varies from company to company, which has an effect on firm's behavior in choosing between debt and equity financing. For growing companies, the capital structure decision becomes centre of concern. Capital structure and diversification are two different concepts of management world that have different impact on various other aspect of financial management and business world. Interaction between capital structure and diversification is under focus and interesting for different studies because of their strong strategic connection and implication concerning corporate governance. Because of their close associations with management choices and capital structure different financial choices are evaluated (Cariola&Rocca, 2007).

However, the financing of diversification moves is largely unexplored. Therefore, there is a need to examine the potential linkages between diversification and the characteristics of financial resources obtained. Early financial theorists suggested that financing decisions may be 'irrelevant' for firm strategy (Modigliani and Miller, 1958), but recent research indicates that such choices may differentially affect firm value largely because of market imperfections (Myers and Majluf, 1984). Several strategy scholars have argued that financial decision and financial resources have strategic importance.

Also, Jensen (1986) argued the corporate strategy impacts capital structure that, in turn affects strategies chosen by top executives. Thus it is better to understand the potential relation between corporate strategy and capital structure in SMEs. In essence, by combining

the theories by Berk and DeMarzo (2014), Koller, et al. (2010), it can be argued that this topic is indeed complex but yet very contemporary with the current business environment. Moreover, it is crucial to understand it from a managerial point of view. Indeed, understanding this complex relationship from a managerial perspective may enrich and aid a company's competitive advantage and ability to compete in a tough market environment (Rocca, et al., 2008).

2. LITERATURE REVIEW

Various scholars and research work has been discussed in this chapter. The arguments are about capital structure and corporate strategy and to conduct the proposed study diversification strategy (type of corporate level strategy) is the main focus and centre of attention of the study. Various empirical and theoretical reviews are done on corporate strategy, diversification strategy and capital structure.

With the aim of establishing the unique theoretical grounds of this research, this chapter uses both a macro- and micro-level approach to analyze the international literature on capital structure and corporate strategy. First, the main corporate finance theories and concepts that relate to the research topic are underlined. The chapter then examines common determinants of capital structure based on corporate finance theories and empirical studies. Capital structure decisions are then related to corporate strategies, detailing the manner in which managers and financial and non-financial stakeholders influence capital structures. Finally, the chapter hones in on studies that relate competitive environments to capital structure decisions. In doing so, it establishes a theoretical framework for testing the influence of corporate strategy on capital structure.

Corporate finance literature has been concerned with the way firms finance their operations, namely, their capital structure (Modigliani and Miller, 1958). Financial leverage is the degree to which a firm utilizes debt in its capital structure (Gill and Mathur, 2011). In a perfect and efficient market, financial decisions are irrelevant to the firm's value (Modigliani and Miller, 1958). Nevertheless, while the Modigliani and Miller capital structure irrelevance proposition fails when market imperfections5 are introduced, it provides a base for understanding capital structure decisions (Frank and Goyal, 2007). Corporate finance theories such as trade-off, pecking order, market timing and stakeholder provide insights into the drivers behind capital structure decisions in imperfect markets. Below is a brief explanation of these varied theoretical perspectives.

Trade-off theory states that the optimal capital structure is a trade-off between the benefits of debt (tax shields) and the costs of debt (expected bankruptcy). To establish an optimal capital structure, companies have to balance these two opposing forces. In order to gain a deeper understanding of the capital structure decision of firms, market imperfections (such as taxation) ought to be introduced. The original trade-off theory stems from the debate over the Modigliani and Miller (1958) irrelevance propositions, which state that—in perfect and efficient markets—the choice between debt and equity is irrelevant (Frank and Goyal, 2007). Additionally, Modigliani and Miller (1963) posit that,when corporate taxation is added to their original Modigliani and Miller (1958) irrelevance proposition, firms should be 100% debt financed because of the tax advantage of debt. 6 However, introducing bankruptcy costs into this model implies that the optimal capital structure becomes a trade-off between the tax advantage of debt and the deadweight costs of bankruptcy (Myers, 1984; Frank and Goyal, 2007). Myers (1984) argues that firms that follow the trade-off theory set a target leverage ratio and then steadily move towards it. Graham (2003) suggests that taxes alter these targets, as firms tend to pursue the tax benefits of debt in high tax regimes. Supporting this notion, in their survey of Canadian and US firms, Graham and Harvey (2001) find that 37% of managers adhere to flexible target leverage ratios, and 10% of managers have strict targets. One of the aims of the thesis is to examine whether managers of Saudi manufacturing firms have such targets in mind when deciding on their capital structures.

Dynamic trade-off theory models suggest that firms respond to market shocks by adjusting their capital structure continuously. Brennan and Schwartz (1984) find that, without adjustment costs, firms would maintain high levels of debt in order to take advantage of tax benefits. However, other studies highlight the effects of transaction costs and the implications of adjusting a firm’s capital structure (Fischer et al. 1989; Goldstein et al., 2001; Leary and Roberts, 2005; Strebulaev, 2007; Byoun, 2008). Transaction costs will cause debt ratios to deviate constantly from the optimum target (Strebulev, 2007). Even minoradjustment costs could result in delays in adjusting capital structure and could therefore yield wide differences in leverage (Fischer et al. 1989).

Pecking order theory, popularized by Myers and Majluf (1984) and Myers (1984), suggests that, if debt is risk-free, then it should be no different from internal financing. However, if debt is risky, the order of preference should be retained earnings (internal equity), debt and external equity. Adverse selection problems stem from information asymmetry between owners/managers and outside investors. The former know their firm’s

true value, whereas outside investors do not. This results in the market mispricing the firm's claims (Klein et al., 2002). Managers would, therefore, issue equity when the firm is overvalued, and their motives could be questioned by outside investors who cannot accurately predict the value of the firm in the presence of information asymmetry.

Agency theory suggests that managers prefer internal financing to external financing (Jensen and Meckling, 1976). The theory argues that external financing requires managers to disclose project details to outside investors, and in so doing, they expose themselves to outside investor monitoring (Frank and Goyal, 2007). Therefore, Myers (2003) argues that agency costs would imply a pecking order. The theory also suggests that debt can be used in modulating the traditional conflict between the shareholders (owners) and the managers (agents) of a firm. When ownership and control are separated, the theory demonstrates that there is a significant conflict between shareholders and management. Debt can be used not only for financing, but also as an effective disciplining device, as managers have to meet debt obligations in order to avoid bankruptcy (Jensen, 1986).

3. STATEMENT OF THE PROBLEM

The success of Small and Medium size enterprises in Cameroon within their dynamic commercial environment depends on their capacity to determine the effectiveness after combining the elements of their capital structure in relation to the different levels of corporate strategy. This is done in order to assure the shareholders of the proper functioning of the business and to guarantee profits at the end of each financial year.

In order to manage risks pertinent in every business, these SMEs have to put at their disposal effective and efficient means (in terms of corporate decisions) to determine the amount of capital necessary to avoid the unforeseen losses resulting from their competitions in the markets.

As a result of the uprising conflicts arising from the diversification, integration and internationalization in the business world, many studies and scholars have come up with studies which show how the level of corporate strategy within an enterprise affects its capital structure decision. Researchers also argue that a good integration between a company's corporate strategy and capital structure is paramount in order to create a competitive advantage today. Yet, the firm's choices of corporate strategy and capital structure tend to depend on very different parameters and paradigms, something which makes their relationship highly complex and challenging to fully understand.

Therefore, it is problematic for managers to incorporate this relationship completely, and decisions regarding strategy and its funding tend to sometimes occur on ad hoc basis. Thus, the main problem of not understanding this relationship is that it may lead to suboptimal governance, resulting in many ad hoc decisions that could be regarded as inefficient. In regard to the theories briefly described in the background above, the initial proposition of this research is that *"a company's choice of corporate strategy is driving their choice of capital structure"*. This proposition is the initial starting-point of the problem formulation and is what this research intends to investigate more thoroughly in order to establish clarity of this relationship within Cameroon manufacturing companies in the SME sector.

4. RESEARCH QUESTIONS

Concerning the fulfillment of the purpose and objective of this study, the research intends to investigate and answer one main research question and three specific research questions:

MAIN RESEARCH QUESTION

How is a firm's corporate strategy affecting its choice of capital structure for SMEs *in* the Cameroon industry?

SPECIFIC RESEARCH QUESTIONS

1. What is the relationship between a firm's corporate strategy and her choice of capital structure?

2. What is the degree of correlation between a firm's diversification strategy and its choice of capital structure?

3. How can integration affect the choice of a firm's capital combination?

4. What effect has internationalization as a strategy on a firm's capital components?

5. OBJECTTIVES OF THE STUDY

MAIN OBJECTIVE

The purpose of this research is to investigate the relationship between a company's corporate strategy and capital structure as well as determine how the choice of corporate strategy is affecting the capital structure decision within a company.

SPECIFIC OBJECTIVES

To determine the relationship between a firm's corporate strategy and her choice of capital structure.

2. To gain more knowledge on the overall relationship between a firm's diversification strategy in determining her capital structure.

3. To identify the interdependence that exists between integration as a strategy and her capital structure.

4. To diminish the gap that exists between internationalization and the choice of a firm's capital structure.

6. RESEARCH HYPOTHESES

H_1: There is a positive relationship between a firm's corporate strategy and her choice of capital structure.
H_2: There is a positive relationship between a firm's diversification strategy and the choice of her capital structure.
H_3: There is a correlation between integration within firms and the choice of their capital structure.
H_4: Internationalization decisions have a positive impact on a firm's capital structure decision.

7. SIGNIFICANCE OF THE STUDY

The purpose of this research is to investigate the relationship between a company's corporate strategy and capital structure as well as determine how the choice of strategy is affecting the capital structure decision within a company. This analysis aims to be evidenced

by empirical data from Cameroon small-medium enterprises (SME). To be more specific, the research will have an initial proposition that the chosen alignment of the corporate strategy is driving a secondary choice of capital structure within a firm. Therefore, the aim of the research is to examine whether this is the case in the Cameroon SMEs. By examining this proposition, the general and high-level purpose is also to gain more knowledge of the overall relationship between the corporate strategy and the capital structure and also analyse factors that may affect the relationship, e.g. different types of corporate ownership. In addition, the findings of this study can also be used for extrapolation to a general perspective in the Cameroon industry landscape. This knowledge can then be used by senior managers within different mature firms in several industries.

Lastly, as the capital structure and the corporate strategy also have traditionally been investigated separately, the purpose of this study is also to diminish the gap of empirical evidence regarding their relationship. The entire Cameroon SME manufacturing industry currently lacks participation, thus is what this research intends to address.

8. SCOPE OF THE STUDY

This piece of work is restricted only to some registered Small and Medium Size enterprises in Yaoundé. Logically, since Cameroon is a developing Country, it is assumed that a good percentage of SMEs have common characteristics. This study focuses basically on some of the Small and Medium Enterprises in Cameroon. The results are generalized by implication to all the Small and Medium Size Enterprises in the country.

The various sources of capital includes loans, savings, deposits, retained earnings, subsidies, provisions, bonds/debentures, depreciations and shares (Hill, 2008). However, considering the nature of SMEs, the researcher will base her studies on how the corporate strategies in these SMEs will affect the above mentioned sources of capital.

PART ONE: RELATED CONCEPTUAL FRAMEWORK

Within an organizational context where competition manifests accurately, the methods of management put in place by mangers is not only to their interest but to the interest of the enterprise as well. The idea of yielding of profits and financial performance are the main reasons for the continuity of every business amongst which the concepts of corporate strategy play an important role in the choices of the capital combination of each business. On this note, a good number of researchers have brought out theories in relation to this phenomenon. The objective of this first part is to identify the notions of corporate strategy and capital structure with the aim of establishing the relationship that exist within the two concepts. This part comprises of two chapters; the first chapter talks about the concepts related to corporate strategy and the theories related to capital structure, while the second chapter brings out the relationship that exists within the two concepts.

CHAPTER I: CORPORATE STRATEGY AND CAPITAL STRUCTURE: TWO CONCEPTS TO HIGHLIGHT

Studies on corporate strategy and capital structure have been seen as point of interest by many researchers about 50years ago. This chapter does not only focus on the models and theories of corporate strategy and capital structure but it seeks to bring out the components and characteristics of each of the variables and how one affects the other, the empirical knowledge, the most important are noted below as follows.

SECTION I: THE CONCEPT OF CORPORATE STRATEGY

Research in strategy is fundamentally concerned with explaining what enables firms to enjoy sustainable performance advantages over their competitors. One of the most important debates in this field emerged between scholars rooted in the tradition of industrial organization economics (IO) and scholars involved in the development of the resource-based view of the firm (RBV). For the IO-oriented scholars, Bain's structure-conduct-performance paradigm (Bain, 1956) informed the idea that industry structure and firms' (or businesses') positions therein are key determinants of their relative performance (Porter, 1979, 1980). By comparison, for scholars coming from the RBV tradition, differences in performance are driven by the idiosyncratic and inimitable resources and capabilities that companies have at their disposal (Penrose, 1959; Rumelt, 1974, 1982; Wernerfelt, 1984; Barney, 1986; Dierickx and Cool, 1989).

I.1 DEFINITION AND CONCEPTS RELATED TO CORPORATE STRATEGY

I.1.1 DEFINITION

Corporate strategy is the way in which a business strives to create value, develop a unique selling advantage and capture maximum market share. Without specific business activities and marketing efforts, a business might merely be churning its activities in hopes of generating more revenues. The answer to the question of "how do managers set and oversee the scope of their firms?" can be broken down into three key components: the first is that managers coordinate resources within the boundaries of their firms, the second is that managers coordinate relationships with other companies across the boundaries of their firms, and the third is that managers decide which businesses belong within the boundaries of their firms and which ones do not.

1.1.2 RELATED TO CORPORATE STRATEGY

- **COST LEADERSHIP:**is a strategy that organizations implement by providing their products and services as low as consumers are willing to pay, thereby being competitive and realizing a volume of sales that allows them to be the leaders in the industry. Typical examples of cost leaders are Wal-Mart in the retail industry, McDonalds in the restaurant industry, and Ikea, the furniture retailer that offers low-

priced, yet good quality home equipment by sourcing its products in emerging markets, thereby having a high-profit margin.

- **Product differentiation** refers to the effort of organizations to offer a unique value proposition to consumers. Typically, companies that manage to differentiate their products from the competition are gaining a competitive edge, thereby realizing higher profits. Often, competitors employ cost leadership to directly compete with these companies; yet, customer satisfaction and customer loyalty are the factors that eventually make or break a strategy.
- **Intra-Organizational Actions**

  Starting with the intra-organizational standpoint, the first answer to the question of "how do managers set and oversee the scope of their firms?" is that they must coordinate how resources are utilized and deployed within the boundaries of their firms. This can encompass a number of different actions, including deciding how to allocate resources to productive uses (Chandler, 1962; Bower, 1970; Christensen and Bower, 1996; Sull, 1999; Gilbert, 2001; Bardolet, Lovallo, and Rumelt, 2010; Arrfelt, Wiseman, and Hult, 2013; Arrfelt et al., 2015), determining how to leverage certain resources across multiple business units to promote synergies and interdependencies.

  Given the nature of these actions, two theoretical perspectives that are informative in depicting how managers make these kinds of decisions are dynamic capabilities and resource redeployment. Notably, because managers can choose to advance their own self-interests in making intra-organizational resource allocation decisions, agency theory can also provide useful theoretical grounding for these issues.
- **INTRA-ORGANIZAIONAL**

  A second answer to the question of "how do managers set and oversee the scope of their firms?" is that they must coordinate relationships with other companies across the boundaries of their firms. This, too, can encompass a number of different actions, especially developing inter-organizational routines with (Dyer and Singh, 1998; Kale, Dyer, and Singh, 2002; Lavie, 2006) and learning from other firms (Cohen and Levinthal, 1990; March, 1991; Lane and Lubatkin, 1998). As such, the two theoretical perspectives that are useful in conceptualizing how managers make these kinds of decisions are the relational view and network theory. The relational view holds that unique combinations of resources or capabilities that are brought together by transaction partners, especially alliance partners, can lead to supra-normal profits (Dyer and Singh, 1998). These combinations are often called relational capabilities,

and they can serve as important sources of learning and knowledge accumulation, especially as it pertains to future interactions between managers (Rosenkopf and Nerkar, 2001; Kale et al., 2002; Lavie, 2006; Kale and Singh, 2007; Gulati, Lavie, and Singh, 2009). By emphasizing the dyadic nature of inter-firm relationships (Dyer and Singh, 1998), the relational view therefore stands in contrast to both the IO paradigm (which, as described earlier, holds that firms derive supra-normal profits from the industries in which they operate and their positions in them (Porter, 1979, 1980)) and the RBV perspective (which holds that firms derive supra-normal profits from their idiosyncratic resource positions (Penrose, 1959; Rumelt, 1974, 1982; Wernerfelt, 1984; Barney, 1986; Dierickx and Cool, 1989).

- **EXTRA- ORGANIZATIONAL**

Extra-Organizational Actions Finally, taking an extra-organizational view, a third answer to the question of "how do managers set and oversee the scope of their firms?" They must decide which businesses belong within the boundaries of their firms and which ones do not. The primary actions that this encompasses are undertaking and then implementing M&A (Walter and Barney, 1990; Chatterjee, 1986; Haspeslagh and Jemison, 1991; Marks and Mirvis, 2001; Capron and Pistre, 2002; Capron and Shen, 2007; Zollo and Singh, 2004; Chakrabarti and Mitchell, 2013) and divestitures (Comment and Jarrell, 1995; John and Ofek, 1995; Markides, 1995; Seward and Walsh, 1996; Berger and Ofek, 1999; Capron, Mitchell, and Swaminathan, 2001; Dranikoff, Koller, and Schneider, 2002; Berry, 2010; Semadeni and Cannella, 2011; Feldman, 2014; Weidner and Mantere, 2018). In performing these actions, managers can again choose whether or not to prioritize their own interests above those of their firms. As a result, both resource reconfiguration theory and agency theory are quite salient in conceptualizing extra-organizational actions. Resource reconfiguration theory treats acquisitions as a means through which managers can access and incorporate valuable new resources and capabilities into their organizations, while divestitures allow managers to remove obsolete or less useful resources in order to improve both the composition of businesses in their portfolios and their overall strategy (Capron et al., 2001; Helfat and Eisenhardt, 2004; Vidal and Mitchell, 2015; Karim and Capron, 2016; Folta, Helfat, and Karim, 2016).

SECTION II: CONCEPTUAL REVIEW ON CAPITAL STRUCTURE

Mbuh (2008) defines the theoretical literature of capital structure as an affirmation, recognition, an exploration and a judgment of to the contributions already made by other researchers. Capital structure is a very complex notion. Therefore, in this section, we would chronologically present the ideas starting with the bases of capital structure in the first part and in the second part we would look at the components and determinants of capital structure.

II.1 DEFINITION AND CONCEPTS RELATED CAPIAL STRUCTURE

Capital structure constitutes a principal aspect in financial enterprises. Many definitions have been brought up in order to ease the understanding of this concept. That is why it is necessary to present several definitions of “capital structure” according to different writers.

According to Scott et al (1979), capital structure reflects a mixture of long term and short term debts, the ordinary and privilege shares contributed by shareholders in order to finance the business depending on the set goals and objectives. In the same light, Pandey (2010) defines capital structure as the proportional relationship between equity and debts, it is also known as the financial leverage when it comes to the most complex issues in financing decisions, in correlation to other variables contributing to decision making (Gitman 1993). He explains that the market value of shares can be affected by the decisions made from capital structure to the extent that it can influence the profits and risks of an enterprise.

Siegel & Jae (2000), defined capital structure as the composition of common stock, preferred stock and the various classes thereof, retained earnings, and long-term debt maintained by the business entity in financing its assets. Nevertheless, it is not unanimously agreed that long-term debt is part of the capital structure. Those who share the idea that long-term debt is part of capital structure say it finances long-term assets whereas those who oppose the idea say it is debt due to creditors; which means it has significantly different characteristics compared to any form of owners' equity.

II.3 COMPONENTS OF CAPITAL STRUCTURE

By definition, permanent capital represents an assembly of funds available in an enterprise for a very long period of time. That is, for a long time or an undefined period. This idea is usually classified under the term stable resources. Its main aim is to finance the

tangible fixed assets, that is, the goods which are durable and stay for a longer period of time in an enterprise. The following below make up the capital structure in an enterprise.

II.2.1 EQUITY FINANCING

The capital in an enterprise comprises of the actual capital contributed by the shareholders and associates of an entity together with available equity. They correspond to the amounts deposited by these shareholders and associates in addition to the plough-back profits generated annually by an enterprise and are not distributed to the shareholders as dividends. Capital has the following criterions:

II.2.1.1 SELF-FINANCING

To finance their investments and their working capital, the owners of SMEs can still use their savings. Self-financing can be defined as the financing of investments through internal means. In the financial point of view, self-financing is "the availability of internal finance for investment in order to assure the growth and existence of an enterprise". Therefore, we talk of self-finance when an enterprise is able first of all to finance her preliminary activities with her own internal available funds.

II.2.1.2 CAPITAL INCREASE

Capital increase can take many forms which include; increase through contributions in cash, increase through contributions in kind and incorporation of reserves, and increase through the conversion of debts. Most times, contributions in kind and in cash are known to be beneficial to the enterprise as they bring in new and diverse means of financing the business, while increase in capital by incorporation of reserves and conversion of debts only help to stabilize the resources already put in place by the enterprises.

II.2.2 DEBT FINANCING OR EXTERNAL FUNDS

According to Alba 2015, debt financing is a situation when a firm raises money for working capital or capital expenditures by selling bonds, bills, or notes to individual and/or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise that the principal and interest on the debt will be repaid. According to Scott, (2003) debt financing is the act of a business raising operating capital or other capital by borrowing. Most often, this refers to the issuance of a bond, debenture, or other debt security. In exchange for lending the money, bond holders and others become creditors of the business and are entitled to the payment of interest and to have their loan redeemed at the end of a given period. Debt financing can be long-term or short-term. Long-

term debt financing usually involves a business' need to buy the basic necessities for its business, such as facilities and major assets, while short-term debt financing includes debt securities with shorter redemption periods and is used to provide day-to-day necessities such as inventory and/or payroll.

II.2 2 1 GRANTS AND SUBVENTIONS

This is an amount of money kept at the disposal of a company as aid, usually by a governmental or non-profit organization, to fund certain projects. They are always insufficient in nature even though they go a long way to finance a portion of investments.

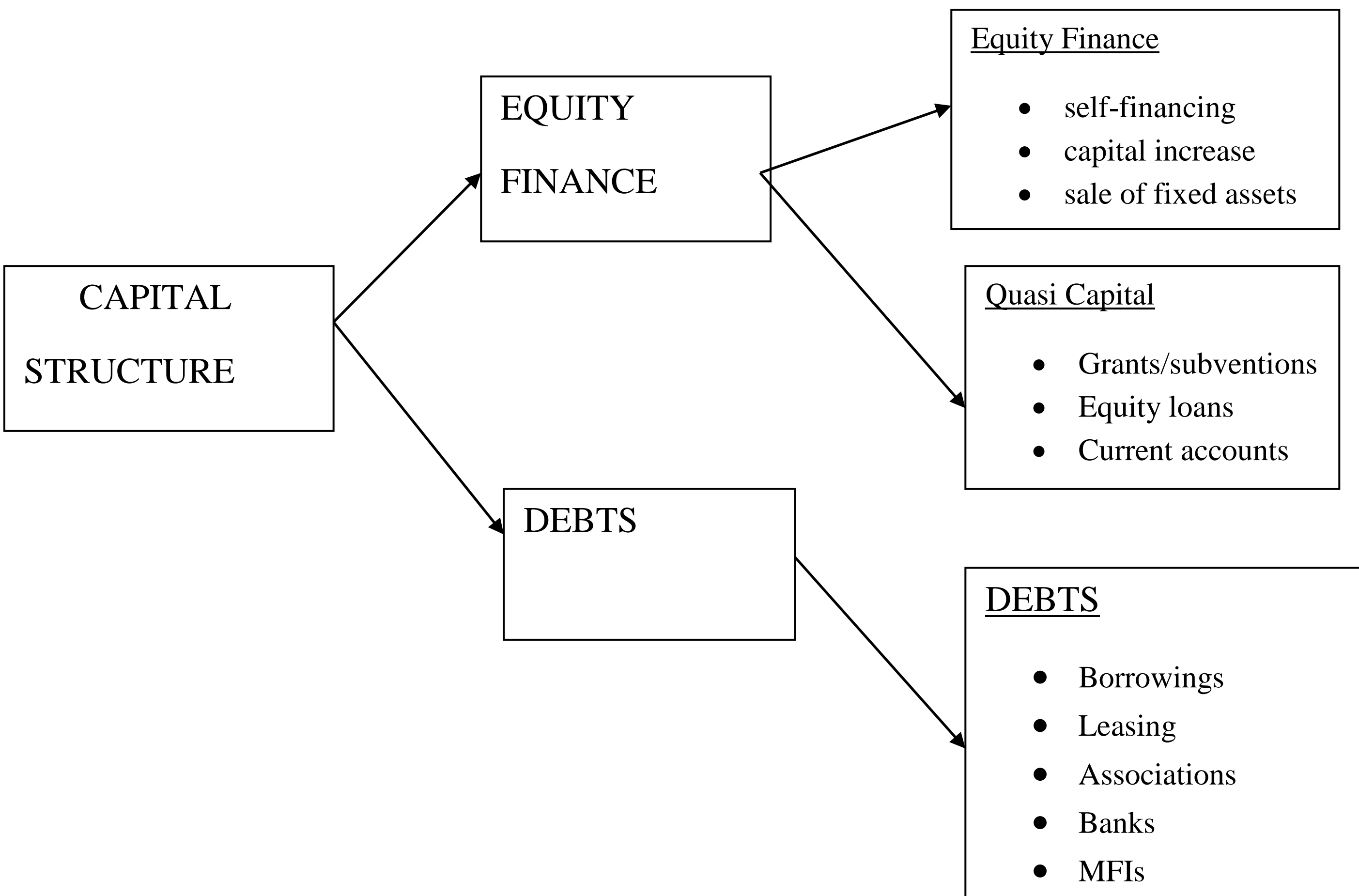
II.2.2.2 EQUITY LOANS

Scott (2003) defines equity financing as the process of raising capital through the sale of shares in an enterprise. Equity financing essentially refers to the sale of an ownership interest to raise funds for business purposes. Equity financing spans a wide range of activities in scale and scope, from a few thousand dollars raised by an entrepreneur from friends and family, to giant initial public offerings (IPOs) running into the billions by household names. While the term is generally associated with financings by public companies listed on an exchange, it includes financings by private companies as well.

II.2.2.3 CURRENT ACCOUNTS

In SMEs, the principal associates, the managers in particular, accept voluntaries to borrow money from the enterprises in which they have reasonable sums of money. The assimilation to these quasi-equity results to the presence of many characteristics which justifies their classification.

FIGURE 1: SUMMARY OF CAPITAL STRUCTURE



SOURCE: THE RESEARCHERS

II.3 DETERMINANTS OF CAPITAL STRUCTURE

II.3.1 THE DEBT RATIO

It compares total liabilities to total assets. Obviously, more of the former means less equity and, therefore, indicates a more leveraged position. The problem with this measurement is that it is too broad in scope, which, as a consequence, gives equal weight to operational and debt liabilities. Lenders and creditors use the debt ratio to estimate the amount of lending risk they will incur by extending credit to an organization. They are more likely to lend when the debt ratio is closer to 0% than when the ratio is closer to 100% (or more). The debt ratio is calculated by use of the following formula:

DEBT RATIO$=\frac{TOTAL\ DEBTS}{TOTAL\ ASSETS}$

Generally, the debt ratio should be kept low if a company's cash flows are subject to a large amount of unpredictable variation, since it may not be able to service the debt in a reliable manner. This situation is most likely to arise in industries that experience large amounts of competition and/or rapid product cycles. Conversely, a business in an oligopoly or monopoly situation enjoys steady and reliable cash flows, and so can more easily pile on additional debt with little risk of not being able to pay it back to the lender.

II.3.2 The debt-to-equity ratio or Gearing Ratio

It compares total liabilities to total shareholders' equity. Current and non-current operational liabilities, particularly the latter, represent obligations that will be with the company forever. Also, unlike debt, there are no fixed payments of principal or interest attached to operational liabilities. The gearing ratio measures the proportion of a company's borrowed funds to its equity. The ratio indicates the financial risk to which a business is subjected, since excessive debt can lead to financial difficulties. A high gearing ratio represents a high proportion of debt to equity, and a low gearing ratio represents a low proportion of debt to equity. A high gearing ratio is indicative of a great deal of leverage, where a company is using debt to pay for its continuing operations. In a business downturn, such companies may have trouble meeting their debt repayment schedules, and could risk bankruptcy. The situation is especially dangerous when a company has engaged in debt arrangements with variable interest rates, where a sudden increase in rates could cause serious interest payment problems.

A high gearing ratio is less of a concern in a regulated industry, such as a utility, where a business is in a monopoly situation and its regulators are likely to approve rate increases that will guarantee its continued survival. Lenders are particularly concerned about the gearing ratio, since an excessively high gearing ratio will put their loans at risk of not being repaid. Possible requirements by lenders to counteract this problem are the use of restrictive covenants that prohibit the payment of dividends, force excess cash flow into debt repayment, restrictions on alternative uses of cash, and a requirement for investors to put more equity into the company. Creditors have a similar concern, but are usually unable to impose changes on the behavior of the company. Those industries with large fixed asset requirements typically have high gearing ratios. A low gearing ratio may be indicative of conservative financial management, but may also mean that a company is located in a highly cyclical industry, and so cannot afford to become overextended in the face of an inevitable

downturn in sales and profits. The most comprehensive form of gearing ratio is one where all forms of debt - long term, short term, and even overdrafts - are divided by shareholders' equity. It is calculated as follows:

GEARING RATIO= $\frac{LONG\ TERM\ DEBTS + SHORT\ TERM\ DEBTS + BANK\ OVERDRAFT}{SHAREHOLDER'S\ EQUITY}$

II.3.3 THE CAPITALIZATION RATIO

It compares the debt component of a company's capital structure (the sum of obligations categorized as debt + total shareholders' equity) to the equity component. Expressed as a percentage, a low number is indicative of a healthy equity cushion, which is always more desirable than a high percentage of debt.

II.3.4 Additional Evaluative Debt-Equity Considerations

Companies in an aggressive acquisition mode can rack up a large amount of purchased goodwill in their balance sheets. Investors need to be alert to the impact of intangibles on the equity component of a company's capitalization. A material amount of intangible assets need to be considered carefully for its potential negative effect as a deduction (or impairment) of equity, which, as a consequence, will adversely affect the capitalization ratio.

II.3.5 FUNDED DEBT

This is the technical term applied to the portion of a company's long-term debt that is made up of bonds and other similar long-term, fixed-maturity types of borrowings. No matter how problematic a company's financial condition may be, the holders of these obligations cannot demand payment as long the company pays the interest on its funded debt. In contrast, bank debt is usually subject to acceleration clauses and/or covenants that allow the lender to call its loan. From the investor's perspective, the greater the percentage of funded debt to total debt disclosed in the debt note in the notes to financial statements, the better.

CHAPTER 2: THEORITICAL APPROACH TO CORPORATE STRATEGY AND CAPITAL STRUTURE

Various scholars and research work has been discussed in this chapter. The arguments are about capital structure and corporate strategy and to conduct the proposed study diversification strategy (type of corporate level strategy) is the main focus and centre of attention of the study. Various theoretical reviews are done on corporate strategy, diversification strategy, integration strategy, internationalization and capital structure.

SECTION I: THEORIES RELATED TO BOTH CONCEPTS

1.1 THEORIES RELATED TO CAPITAL STRUCTURE

1. THE TRADE OFF THEORY

The usage of leverage is both connected with advantages as well as risks (Berk&DeMarzo, 2014). The trade-off theory captures, and combines, the benefits of debt (e.g. tax shields) with the costs of debt (e.g. costs related to financial distress) (Berk&DeMarzo, 2014). According to the trade-off theory, the value of the firm with leverage (VL) equals the firm's value without leverage (VU), plus its present value of the tax shield gained from debt, minus the present value of its distress costs due to the debt (Berk&DeMarzo, 2014). The tax savings from the interest shield come originates from that interest charges on debt are tax deductible while for instance dividends and repurchases of shares are not (Berk&DeMarzo, 2014). Thus, by using debt instead of equity in order to finance a company, the firm's total taxable income is reduced, hence also raises the value of the firm (Koller, et al., 2010). However, it is important to bear in mind that this benefit is not scalable in infinity: Increased debt levels may lower the overall corporate taxes, but at the same time, they can also entail higher taxes for the investors depending on whether or not the investors' taxes are higher for capital gains on shares/dividends or on the interest income (Berk&DeMarzo, 2014; Koller et al., 2010; Miller, 1977). If their taxes are higher for the interest income, financing by equity would then potentially be more profitable, depending on the tax levels for the investors and the corporation's (Miller, 1977). Moreover, in a study by MacKie-Mason (1989), the author concludes that firms in general are considering the benefits of debt (e.g. tax shields) when they are choosing of issuing a substantial level of either new equity or new debt.

Moreover, increased leverage could also benefit the company by helping it reduce potential corporate over investments and excessive risks (Koller, et al., 2010). Considering a mature company with strong cash flows, while at the same time quite few growth opportunities, an increased level of leverage may lure managers to increase corporate spending on certain opportunities (Richardson, 2006). An example of this could be potential acquisitions or other investment projects, which then potentially would increase the growth of the company, but often at the expense of its total enterprise value (Koller, et al.,2010; Richardson, 2006Richardson (2006) further concludes that over investments is often a result of bad usage of the financial resources of the firm, such as available free cash flows. Furthermore, increased leverage could also benefit the company by helping them reduce these

potential corporate over investments and excessive risks, hence restrain the use of cash flow for inefficient purposes (Koller, et al., 2010). This benefit comes due to the fact that increased leverage may restrain managers and make them more reluctant to overinvestment due to the debt obligations that arise with the issuance of debt (Richardson, 2006). Therefore, increased leverage limits those types of managerial over investments: It constrains the firm to pay out their free cash flow as interest expenses and other debt obligations before they are able to conduct further investments (Richardson, 2006). However, an increased level of leverage may also imply costs in terms of financial distress and potential bankruptcy(Koller, et al., 2010; Opler& Titman, 1994; Teresa, 1993). These managers tend to avoid projects that may entail a significant risk, despite that the projects may also have a potentially huge upside (Rocca, et al., 2008). A typical behavior for these types of managements is that they are focusing on selling additional products in order to grow instead of investing for growth, since that type of growth entails a higher level of risk (John &Brito, 2001).In essence, Myers (1977) argue for that a firm's value originates in the total assets and the possible growth opportunities the firm has, thus bases the valuation on the future ability of the firm to make investments resulting in positive NPVs. As a result of this, the firm's capital structure influences how well a company can take advantage of upcoming growth opportunities, findings that are also in line with the conclusions by Goedhart, et al. (2006). Conclusively, the quality of the managerial decisions regarding growth opportunities must be high (Rocca, et al., 2008). In essence, from the theories described in the sections above, it can be concluded that companies which are generally having good financing could indirectly be encouraged to under invest and, thus, avoid risks (Rocca, et al., 2008). Hence, these companies might undertake a risk-averse behavior, something that ultimately may lead to a decreased enterprise value (Rocca, et al., 2008). Contrary, companies that generally are having low growth prospect, and often are highly leveraged, are instead indirectly encouraged to (over)invest in riskier projects (Rocca, et al., 2008).

To conclude, high leverage leads to tax savings and a potential managerial disciplining tool, meanwhile too much leverage increases the risk of default and implies financial distress costs. Thus, in order to achieve a so-called optimal capital structure in accordance with the trade-off theory, a company needs to balance the trade-off between benefits of debt, e.g. tax shields, and the cost of debt. In a perfect and efficient market, Modigliani's and Miller's (1958) irrelevance proposition concludes that the decision of finance with debt or equity is irrelevant. However, Modigliani's and Miller's updated and corrected the irrelevance proposition from 1963 and suggested that with corporate taxation, a firm should be fully financed with debt

due to the tax benefits coming with it in terms of tax shields (Modigliani & Miller, 1963). Nonetheless, when bankruptcy costs are added to the model, the optimal capital structure is, in fact, a trade-off between the tax benefits of using debt and the additional costs which are oblique with the costs of bankruptcy (Vidhan& Murray, 2007; Myers & Majluf, 1984). With this in mind, it is possible to argue for that firms setting a target leverage ratio are in compliance with the trade-off theory, and vice versa (Myers & Majluf, 1984). A general target leverage ratio is objectified. Where the net effect of the benefits/costs related to leverage is objectified.

2. THE PECKING ORDER THEORY

The pecking order theory is an alternative theory to the trade-off theory that also explains the capital structure and how it should be formed (Koller, et al., 2010). The concept of the pecking order is that the cost of finance operations is increasing with asymmetric information which may often occur between owners/managers and outside investors/stakeholders (Berk&DeMarzo, 2014; Koller, et al., 2010). In short, asymmetric information is the theory within economics that comprehends the circumstance when one party has more/better information than another party, thus creates an imbalance in a potential transaction between them (Myers &Majluf, 1984). One example of information asymmetry would be regarding the firm’s true value, where owners/managers have quite good knowledge of the true value. In opposite, outside investors have relatively limited knowledge of the true value of the firm, hence creating an asymmetric information gap between them. For this reason, managers would generally use equity in a case of an overvalued company, implicitly leading to questioned motives from outside investors/stakeholders since they have limited information about the true value (Koller, et al., 2010).

Conclusively, asymmetric information is affecting the decisions of whether internal or external funding is best, as well as the choice between issuance of new debt or equity. Therefore, as financing generally comes from either internal funds, new equity or debt, the pecking order theory implies that a firm should prioritize their source of financing in the following order (Myers &Majluf, 1984):

Internal financing (e.g. use retained earnings)
Issuance of new debt
Raise new equity from external investors

According to Berk and DeMarzo (2014), it is indeed more common to finance operations with internal funding over debt and new equity. Historically, retained earnings have financed an average of 75% of capital expenditures (Berk&DeMarzo, 2014). This pattern was also found by Lawellen and Lawellen(2006), who concluded that internally generated equity (e.g. retained earnings) are indeed always less costly than external capital, thus more beneficial to use for companies. By being aligned with the pecking order theory, a company's financial and managerial flexibility is also enriched (Byoun, 2011). A company that is less dependent on external parties, such as external investors (external equity) or the bank (external debt), are generally having a high level of financial and managerial flexibility (Byoun, 2011). The financial flexibility is enhanced since the company basically can spend their money on whatever they like (Byoun, 2011). The managerial flexibility is enhanced since the company does not need any approvals from external parties regarding managerial decisions (Byoun, 2011). Lastly, by referring back to the trade-off theory, a firm that is compliant with the pecking order theory does not have a target debt-equity ratio, or a target leverage rate (Goyal & Frank, 2005).

3. THE SIGNALLING THEORY

Akerlop and Andrew use first the concept signaling in context of job and product market and Spence in (1973) developed it into signal equilibrium theory. Signaling theory is all about how an efficient and good firm is distinguishing from bad firm by sending signals about its quality to market. If the bad firm don't send false signal and don't mimic the good firm, then the signal will be credible for bad firm. It is not worthwhile to mimic good firm if the cost of signals is higher for bad firm than good firm and so the signals will be credible. To separate good firm from bad firm's debt can be used as costly signal suggested by Ross (1977). "Firm signal are crucial for obtaining finance, under asymmetric information between investor and manager", Investors doesn't know the true distribution of firm return but manger does know. Good quality firm use more debt and low quality firm use less debt and it represent an optimistic future through signaling of using higher debt by manger (Ross, 1977). "When production signals consume resources then it is costly or signal is associated with a loss in welfare by which a firm shows deviation to allocate and distribute claims in capital market". The signals are multivariate for financial instruments. New entrant firm potential competition can be differentiating though debt signals (Poivten, 1989). Signal to market by low cost entrant is issuing debt while high cost entrant issue equity (Ravive, 1985).

1.2 THEORIES RELATED TO CORPORATE STRATEGY

1. INTEGRATION STRATEGY

Integration is a growth strategy (corporate level strategy) and when a firm adopts integration strategy it results in increase and widens the business scope (Scott Gallagher, 2003). Integration corporate strategy results in doing some different from what a company is previously doing. Transaction based economics best explains which integration strategy is to choose, "according to transaction based economics, 'a buy or make' decision is made when a firm wants to negotiate with its suppliers and buyer (Gallagher, 2003). The cost making product is evaluated against cost of procuring it from suppliers, if the cost of manufacturing is less than cost of procurement then company will ought to produce its product and will perform integration because they will move up the value chain(Shroon, 2006). Likewise, it is better for a firm to move down in the value chain if the cost of selling the finished product if the price paid to seller is high in order to sell the finished product than cost of selling the product by itself, in both cases the firm is following corporate integration strategy (vertical Integration) (Kazmi, 2003). Vertical integration adding something thing new to business to cover its own needs and keep the original business at the same level but the business portfolio increases (Scott, 2003). Horizontal integration strategy is "when a firm takes up the same type of product at the same level of production and marketing process" (Obara, 2008). To expand geographically though merger or buying competitor business is horizontal integration and it provide a large market base for merger firm (Obara, 2008).

2. DIVERSIFICATION

For research finding, diversification strategy is main focus and concern of the study. In the course of this corporate level strategy single or jointly substantial change is made in business definition or portfolio, diversification is entrance of a firm into new lines of activities which bring out changes in its systems, administrative structure and other process of management through process of acquisition or business development (Ramanujam &Varadarajan, 1989). The change may be of different perspective for example change in term of customer group, customer function, or alternative technologies of one or more of a firm's business. There are two basic diversification strategies (Nayyar, 1990). When a firm takes up business activates that is related to current or original business activates or definition in different terms and perceptive then it is Concentric Diversification. Conversely when a firm adopts a corporate strategy by adding a product line or business activates bring different and

unrelated to original definition of the business, it leads to Conglomerate Diversification (Kazmi, 2003).

3. RESOURCE BASED VIEW

According to resource based view, for competitive advantage, performance and growth the company resources and firm's assets are the fundamental determinants. A firm controls a bundle of resources and the model assumes that firm or company in strategic group may heterogeneous to the resources they control (Ongeri, 2014). It also assumes that heterogeneity of resources will continue to exist overtime because for implementing Firm's strategy the resources across the firm are not perfectly mobilize. Thus it has been cleared that unique resources and capabilities of the firm defines and describes the essence of strategy and these resources may be acquired through debt or equity financing, so it also characterizes the mix of capital structure (Lewellen, 1971).

4. TRANSACTION BASED ECONOMICS

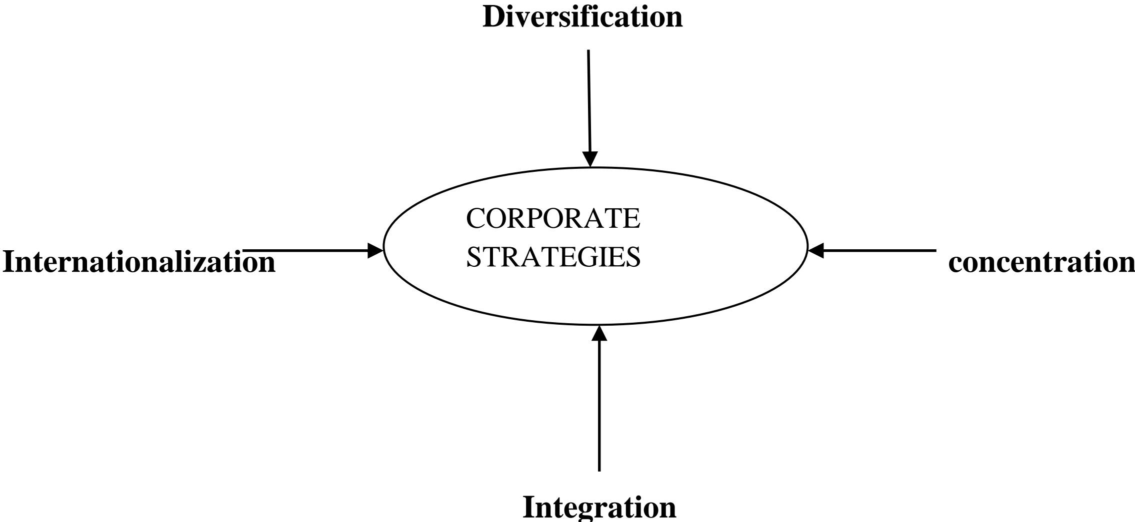
Transaction based economics primary focus on "vertical integration or buy or make decision Questions". Transaction based economics plays a vital role in distributing of the activities of the firms over industries determining (Ongeri, 2014). Transaction based economics focuses on firm choices to involve in diversification in new industry or outsource any valuable asset of the firm in that industry. It doesn't make predication that in which specific industry the firm should diversify but it can with other approaches for example Resource based view, specify that where and when a particular asset will is useful (Lishenga, 2012). Transaction cost economics approach is helpful in firm boundary study, decision of vertical integration. Transaction cost economics also can be used as rational in conducting an acquisition (Barney, 1991). In Transaction cost economics there is existence of a close parallel between corporate finance and vertical integration. Firm core competency and focus in long term decision to buy or make is determined by the boundary decision faced by firm. To finance investment through equity or debt is a decision in corporate finance is for the firm another make or buys decision.

5. CO-INSURANCE EFFECT

The co-insurance effect combat with operating risk reduction because when a firm or company involve in different business and cash flow inverse business results in different cash

flow and result to imperfect relation between these cash flow causing operating risk (Lishenga, 2012). Co-insurance effect is most appropriate for those firm involving and developing unrelated corporate strategy because unrelated business results in “lack of relation” between cash flows of the business is greater, “these firm should use more debt (Lewllen, 1971”. Co-insurance effect is actually a corporate level debt theory aims that a risk faced by a firm can be reduce when a firm diversify its operation (Klein & Lien, 2009). The influence of coinsurance effect on debt capacity is positive, due to firm revenue volatility reduction and profit. Moreover, firm’s asset’s future rent stream could be accurately estimated by debt holder results in improvement of firm borrowing ability and debt capacity.

FIGURE 2: SUMMARY OF CORPORATE STRATEGY.



Source: The Researcher, 2021.

SECTION II: RELATIONSHIP BETWEEN CORPORATE STRATEGY AND CAPITAL STRUCTURE.

ROLE OF COPORATE STRATEGY

Andrew and Mintzberg and water (1982) presented an approach, corporate strategy are realized pattern in the flow or stream corporate actions and decisions. Corporate strategy reflected in every firm objective and policy. Corporate strategy crystallizes the population of organization that will emerge in the process and it also improves the instruction that an organization have from their stake holder (Andrew &Mintzberg, 1982). Corporation being involved in portfolio of multiple businesses activities, identified as those plans and actions which have influence on their different portfolio, this concerns the extent to which companies diversified from its core business. Mintzburg (1988) identify generic strategy that leads to

creation of these corporate strategies that are differentiated on the basis of distance from core business and firm activities original focus. According to empirical evidence on the failure of merger and acquisition, to generate value of synergy to its stock holder and frequently spread of risk was taken as rationale (utility) for merger activity, all this leads to reinforcement of this view of corporate strategy. According to Porter (1985) the result and track record of corporate strategy is dreadful because most of the companies shattered rather than creating shareholder value. Porter argument was supported by data, in unrelated firms with average of divestment rate of 74% occurred while over 50% of in related acquisition. Strategy may pop out or emerge in response to changing circumstance of the environment, so strategy might not be a plan activity. So a clear and transparent methodology will be necessary for empirical research and categorization of corporate strategy will be necessary for useful study of corporate and capital structure relationship. Wrigley (1970) and Rumelt (1971) used sale turnover analysis forms the basis of strategy taxonomy. Barton and Gardon on their 1998 study used the modified version of Rumelt strategy taxonomy. For the aim of comparison, the study applies four of the Rumelt categories.

RELATIONSHIP BETWEEN CORPORATE STRATEGY (DIVERSIFICTION STRATEGY) AND CAPITAL STRUCTURE

Modigliani and miller (1958) suggest that in case perfect or efficient market financing decisions are "irrelevant" for firm strategy. However, Mayer and Majluf (1984) cleared that because of several implications "in real world such choices may differently affect value of the firm". Strategist argued, there is a strategic importance in every financial decision, especially in affecting corporate governance (Bromileym, 1990). Tradition finance paradigm has been complemented by corporate strategy and also enriching the comprehending of capital structure decision of the firm (Barton &Gardon, 1987).

Diversification corporate level strategy is the centre of attention of the study; it is necessary to explain the relation of diversification with debt and equity financing (capital structure). Product Diversification and international diversification can be explained with help of coinsurance effect, suggesting that risk can be minimized when we diversify activates (Lewellen, 1971). Firm debt capacity can be boost through reducing risk leads to a positive relationship between leverage and degree of diversification (Apostu, 2010). Aggregate businesses activities have imperfectly related cash flow stream decrease the variability of earning for a combined business, expected loss become more predictable and reduction in

variability of earning can b achieved when insurance pool magnitude increased through product and geographical diversification (lewllen, 1971). Extending this theoretically, coinsurance effect results in enhancement of market value of Diversify firm debt and associatively decline in value of its equity (Higgins &Schatt 1975).

Diversification has impact on capital structure; Banerjee (2011) argued that value to the firm has been added by debt capacity so through overall debt capacity diversification enhance value of the firm. To increase shareholder wealth diversified firm may have greater debt capacity than firm don't involve in diversification (Sing et al, 2002). A firm operating in multiple markets help the firm a business to diversify risk and smooth earning volatility, make the firm to grab the benefit of issuing more debt (O' Brien, Tork& Andrew 2013).

PART 2: ANALYSIS OF THE RELATIONSHIP BETWEEN CORPORATE STRATEGIES AND CAPITAL STRUCTURE IN SOME SMEs in YAOUNDE.

All researches have a problem whose resolution passes through an intense methodology put in place. The research methodology is an analysis or a part taken to resolve a problem asked or noticed. The sequence of stages in which all the research passes through to show prove of the problems and questions raised in a research work are known as "methodology". In this part, we would give a detailed explanation on the different methodological approaches generally used, we would also present the empirical guides that help us throughout the research and the methods adopted to retrieve necessary information to measure the relationship between corporate strategy and capital structure in SMEs in Cameroon.

In chapter Three, we would present the history and structure of SMEs in Cameroon, while in chapter four, we would present methods and final results to show the incidence of corporate strategy on capital structure.

CHAPTER III: METHODOLOGY AND SCOPE

Study Research design, methodology and scope are presented in this chapter for the purpose of performing and executing study. Research design, population and sample, data collection and data analysis have been discussed and explained in this chapter.

SECTION I: PRESENTATION AND HISTORY OF SMEs

1.1 SCOPE AND AREA OF THE STUDY

1.1.1 SCOPE OF THE STUDY

The development of small and medium sized enterprises (SMEs) has long been regarded as a seed bed for industrialization and therefore crucial for the achievement of broader developmental goals. The 1972 International Labor Organization (ILO) report confirmed that SMEs play a significant role in employment and wealth creation and as a result many countries have implemented various programs for encouraging growth of SMEs. It is worth noting that SMEs have become the "backbones" of most economies as they serve as seedbeds for entrepreneurship, create new jobs and provide innovation and technological development (Mullei, 2003). Of importance to note is that there is no clear and universally accepted definition of SMEs. According to Ronge and Nyangito (2002), there are generally three main criteria that can be used in defining their activities. These are: definitions based on the number of employees engaged by the enterprises; the degree of legal formality that distinguishes the formal and informal sector enterprises and definitions based on the amount of capital and skills per worker.

This proposal employs the definition of SMEs according to their number of employees, that is, SMEs are defined as those non-primary enterprises whether in the formal or informal sector that employ 1 – 50persons. Firms that employ more than 50 persons are considered as large enterprises. According to studies by OECD (2004), SMEs contribute to over 55% of gross domestic product (GDP) and over 65% of total employment in high-income countries, over 60% of GDP and over 70% of total employment in low-income countries, and over 95% of total employment and about 70% of GDP in middle-income countries. Nguyen et al (2004) further indicates that SMEs generate more new jobs than large firms as they tend to introduce relevant innovative ideas, products and business methods. The SMEs tend to introduce business methods, products, and services that help restructure weak agricultural sectors or other uncompetitive transition economies, thereby absorbing labor that would otherwise drop into the ranks of the poor. This helps in the spread of the benefits of economic growth by engaging low-income groups in national development.

1.1.2 AREA OF THE STUDY

Since independence, the significance of SMEs' activities has continued to grow and play a critical role in promoting growth in incomes and employment. Mullei and Bokea (1999) highlight that the economic space and opportunities created by the set of legislation and the subsequent slowdown in economic activity, especially beginning in the mid-1970s, the number of SMEs, continued to grow. This trend continued into the 1980s and early 1990s. In the latter period, the SME sector witnessed a bustling of activity and a dramatically renewed interest by both external agencies and the national government in informal sector activities, with a desire to intervene directly in this sector. Small and Medium-sized Enterprises in Cameroon (SMEs) constitute the bulk of the country's enterprises. In fact, Law N ° 2010/010 of 13 April 2010 on the promotion of SMEs in Cameroon and other legal and institutional instruments paved the way for the sector with many such enterprises being created. With other accompanying measures for a level playing ground created, the SMEs, according to statistics from the Ministry of Small and Medium-sized Enterprises, Social Economy and Handicraft (MINSMESEH), constitute 95 per cent of Cameroon's enterprises. The sectors concerned are; transformation, agriculture and animal husbandry, general commerce, construction and public works and most recently Information and Communication Technologies (ICTs). Going by the Research and Analysis Centre on the Economic and Social Policies of Cameroon (RACESPCAM), 61,366 SMEs were created in Cameroon between 2010 and 2016, with 59,200 being local enterprises and 2,166 foreign 72.42% of the enterprises, according to RACESPCAM) are inexistent on the taxation department database as at May 2016. According to the 2016 annual statistics of the Ministry of Small and Medium-sized Enterprises, Social Economy and Handicraft, Cameroon SMEs considered as the main engine for economic growth, contribute only 36 per cent to the Gross Domestic Product (GDP). "Imagine that SMEs contribute 50 per cent to GDP, we would already be an emerging country. So SMEs have to make an effort so that their contribution to the national economy can attain 50 per cent. The government expects SMEs to improve with all the accompanying structures at their disposal, "Minister Laurent Serge Etoundi Ngoa, stated in one of his interviews with the national bilingual daily newspaper, Cameroon Tribune. Cameroon SMEs have one fundamental problem, a short life span. A good chunk of the SMEs die naturally while still in the incubator stage. This, experts say, is as a result of poor or absence of market research as well as the good choice of area of specialty (niche).

The Research and Analysis Center on the Economic and Social Policies of Cameroon (RACESPCAM)) in its 2016 study show that 66.43 per cent of SMEs in the transformation sector, 46.84 per cent in Agriculture, 31.64 per cetin general commerce, 28.16 in Associations and training and 25.86 per cent of enterprises in the construction and public works sectors survive the hurdles. Despite huge potentials available, experts say Cameroon’s SMEs are not very competitive. Their performance is therefore unmatched with their numerical strength. Désiré Makan, an expert in the sector posits that there is a need for a change of entrepreneurship mentality in the country. He points out lack of structuring, professionalism and engagement in networking as well as difficulty in accessing to financing as major hurdles to an efficient performance of the enterprises in Cameroon. The SMEs most often lack technical materials of production and thus unable to meet up with demand and competition with their foreign counterparts especially with the coming of the Economic Partnership Agreement with the European Union which went into effect last year. The management style of these SMEs, which are considered as family business also leaves much to be desired, coupled with lack of training and professional associations to guide actors. These difficulties including financial bottlenecks, lack of qualified staff, technical production materials amongst others which impede performance have also been highlighted in the 2016 Statistical Year Book of the tutelage ministry. Tadesse (2007) presents a comparison of the proportion that the SME sector contributes in terms of employment of the labor force in selected countries in Africa.

1.2 DEFINITION OF SMEs

1.2.1 Definition according to FOGAPE

FOGAPE defines SMEs as an enterprise having the following characteristics

- Be in possession of capital of up to 51% owned by the nationals.
- Managers should have Cameroonian nationality
- Turnover should not exceed 1billion FCFA
- The amount of cumulated investment is inferior to 500millions FCFA

1.2.2 Definition of SMEs according to finance law 2010

The Cameroon finance law n^{0}2010/001 on the promotion of SMEs holds a new definition of these enterprises. It classifies and defines them into VSE, MEs and SEs. These categories of enterprises are classified in function of their annual turnover and the number of employees.

SE: it regroups enterprises that have employees of more than 6 and less than 20 with an annual turnover of 15 to 100million FCFA.
ME: It defines enterprises with employees of more than 21 and less than 100 with an annual turnover of 100million to 1billion FCFA
VSE: Enterprises with employees within the range of 1 to 5 with an annual turnover from 0 to 15million FCFA.

1.2.3 Definition of SMEs according to the Cameroon finance law n° 2015/010 of 16th July 2015.

She considers SMEs as all enterprises whose sector of activity employs more than 100% person and whose annual turnover does not exceed 3billions FCFA.

SECTION II: RESEARCH METHODS AND SAMPLING TECHNICS

2.1 RESEARCH DESIGN

The research design discloses the steps taken by the researcher to conduct the research. It provides the glue that holds the research project together. Zita and Ozougwu (2010) define research design as the function of the objective and the specific information requirements. They also went further to define research design as a master plan of the methods and procedures that should be used to collect and analyze the data needed by the decision makers.

The search problem was studied by use of a descriptive research design. Descriptive research is the investigation in which quantitative data is collected and analyzed in order to describe the specific phenomenon in its current trends, events and linkages between different factors at the current time. Descriptive research design enables the researcher to generalize findings to a larger population. The descriptive design approach has been credited to the fact that it allows analysis in relations to variable.

2.2 DATA COLLECTION

2.2.1 METHOD OF DATA COLLECTION

The primary data was collected by use of a questionnaire. In order to know the relevance of corporate strategy and capital structure tool among small and medium size enterprises in Cameroon through the self-administered drop and pick. Questionnaires were

distributed or provided to some selected small and medium size enterprises in Yaoundé. Interviews were also used in the case where some of the respondents were willing to respond. This enabled the researcher to get adequate and accurate information from people who have them in data collection instrument. The questions were both open and close ended. A sit were the open ended questions provided more information while the closed ended questions were used to get specific unique information. The reason for choosing questionnaires is because it was less costly, convenient and not biased.

2.2.2 TOOLS OF DATA COLLECTION

The researcher used self-reporting questionnaire as a tool to collect data. The questionnaires used for the study were structured to have a like structure form which provides the respondent with possible answers from where they will be required to select. Personal interviews with some respondents were used to collect sensitive information that if included in the questionnaire could not be given a sincere response.

2.2.3 SAMPLE AND SAMPLING TECHNIQUE

A simple random sampling technique was then applied to obtain the sample size of 45 for the study and this was done to ensure validity and reliability. The population consisted of individuals that were of particular interest to the researcher. In this study the population was made up of some selected small and medium size enterprises in Cameroon. A simple random sampling technique was then applied to obtain the sample size of 45 for the study and this was done to eliminate bias. The targeted sample was then surveyed with a structured questionnaire comprising of 30 questions that was designed to be administered for data collection from the sample. After the questionnaires were completed, all 45 of them were retrieved and this formed the sample size.

2.2.4 TARGET POPULATION

According to Mugenda & Mugenda (2003), a population is a well-defined area or set of people, services, elements, and events, group of things or households that are being investigated. The targeted population of the study is some selected small and medium size enterprises in Cameroon.

2.2.5 DATA ANALYSIS

Data obtained was analyzed using the quantitative descriptive statistics in the form of frequency distribution, percentages and charts in Statistical Package for Social Sciences (SPSS) application software version 20 was used to analyze data collected from the already filled questionnaire. This is intended to guide the researcher arrive meaningful conclusions and recommendations. After responses were gathered, every type of data relating to the questions were separated and gathered to answer different research objectives. The information received were classified into answer categories and expressed as percentage frequencies. The research methodology made used of correlation analysis and regression analysis.

2.2.6 MODEL SPECIFICATION

Based on the topic, two variables and other associating independent variables are identified the objectives of the study being the relationship between corporate strategy and capital structure. The chosen model for the analysis of data is simple linear regression model. Capital Structure =Corporate strategy +Diversification strategy +Integration+ Internationalization+ Equity financing +Debt +error terms

Mathematical Form of the Model

The transformation of the simple linear regression model into mathematical models gives it a better explanation of Capital Structure as the dependent variable which is depending on the independent variables subdivided into corporate strategy, Diversification strategy, Integration, Internationalization, Equity financing and Debt. These variables will have influence on Capital Structure of small and medium size enterprises in Cameroon and taking into consideration the stochastic term or error terms.

$Y= \beta o + x_1+x_2+ x_3 +x_4+ x_5+x_6+\mu i$

$CSi= \beta_0+ \beta_1 xCSi + \beta_2 DSi + \beta_3 Ini + \beta_4 Ini+ \beta_5 EFi + \beta_6 Dei+ \mu i$

Where;

Y is the dependent variable which is Capital Structure

CS= Corporate Strategy

DS = Diversification strategy

IN=Integration

IT =Internationalization

EF=Equity financing

De=Debt

μ = **error terms**

2.2.7 Estimation Framework/Methodology

The technique of estimation adopted for this study was the Ordinary Least Square (OLS) technique due to the dynamic nature of resilience. The OLS estimation to be valid required that: the expectation of the error term is zero, the distribution is normally distributed, no auto- correlation, no hetero-skedasticity and no multi-co linearity.

The correctness of the parameters of this work are tested on the basis of three criteria namely; the economic or a priori criteria, the statistical or first order test and the econometric or second order test. The economic or a priori test is concerned with the size and direction of the estimated parameters. With this criterion, economic theories on the variables and their relationship are made to confirm to the expected signs and sizes of the parameters in question with respect to a priori expectation. Therefore, this was verified using the Variance Inflation Factor (VIF) test for multi-co linearity and the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity.

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF RESULTS

The purpose of this study is to determine the extent to which corporate strategies impact the capital structure in SMEs in Cameroon. In the course of this chapter, the research data, results and interpretation are presented. First the sample is described, then detailed analysis of the four research questions using variables of corporate strategies. What is the relationship between a firm's corporate strategy and her choice of capital structure? What is the degree of correlation between a firm's diversification strategy and its choice of capital structure? How can integration affect the choice of a firm's capital combination? What effect has internationalization as a strategy on a firm's capital components? The research questions were directed towards SMEs in Cameroon, to show the extent to which the different growth strategies affect capital structures in SMEs. Analysis such as Correlation analysis, Analysis of variance method (ANOVA) and Regression coefficient result, and the results are presented in tables.

SECTION I: PRESENTATION OF RESULTS

In this chapter, we will be looking at the ways in which results can be presented through the study of the different demographic characteristics such as sociological, diversification strategy, integration strategy and internationalization strategy, and how the results would be analyzed through inferential analysis and finally the discussion of results

4.1.1 Demographic Characteristics

Here we are going to be looking at the ages of the respondents, their gender; positions held in their institution, duration put in service by the respondents, their level of education, post of responsibility, longevity of the enterprise, legal form of the enterprise and the number of employees in the enterprises.

Table 1: Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	32	71.1	71.1	71.1
	Female	13	28.9	28.9	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

The results from table 1 above present the distribution of the respondents by gender. The results show that 71.1% representing 32 respondents were males while 28.9% representing 13 respondents were females.

Table 2: Age Bracket

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<20	8	17.8	17.8	17.8
	20-29 yrs.	6	13.3	13.3	31.1
	30-39 yrs.	7	15.6	15.6	46.7
	40-49yrs	17	37.8	37.8	84.4
	50-59yrs	3	6.7	6.7	91.1
	>60yrs	4	8.9	8.9	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 2 presents the results of the responses gotten from the respondents indicating their age distributions. From the results gotten, 17.8% of them are less than 20 years representing 8 respondents, 13.3% represents those within 20-29years representing 6 respondents, 15.6% fall within 30-39years representing 7 respondents, 37.8% represents those within 40-49 years representing 17 respondents, 6.7% fall within 50-59years representing 3 respondents and 8.9% of the respondents are greater than 60years representing 4 respondents.

Table 3: Level of Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary education	11	24.4	24.4	24.4
	Secondary education	12	26.7	26.7	51.1
	Higher education	22	48.9	48.9	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

The results found on table 3 represent the levels of education of the respondents. 24.4% of the population represents those at the primary level thus 11 respondents, 26.7% represents those at the secondary level representing 1 respondents and the majority which is 48.9% those who have reached the higher level of education representing 22 respondents.

Table 4: Working Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 2years	6	13.3	13.3	13.3
	3-6years	7	15.6	15.6	28.9
	7-9years	10	22.2	22.2	51.1
	Greater than 10years	22	48.9	48.9	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021.

Table 4 presents the statistics of the working experiences of the respondents. 13.3% have worked for less than or equal to 2years representing 6 respondents, 15.6% represents those who have worked for 3-6years thus 7 respondents, 22.2% represents those with working experiences of 7-9years thus 10 respondents and 48.9% represents those who have worked for 10years and above representing 22 respondents.

Table 5: Post of Responsibility

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manager	4	8.9	8.9	8.9
	Accountant	5	11.1	11.1	20.0
	Secretary	7	15.6	15.6	35.6
	Cashier	2	4.4	4.4	40.0
	Others	12	26.7	26.7	66.7
	Seller	15	33.3	33.3	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

The results on table 5 presents the post of responsibility held in the various enterprises by the respondents. 8.9% are managers thus 4 respondents, 11.1% are Accountants representing 5 respondents, 15.6% are secretaries representing 7 respondents, 4.4% are cashiers representing 2 respondents, 26.7% are others representing 12 respondents and 33.3% of them are sellers representing 15 respondents.

Table 6: How long has the enterprise been existing?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5years	10	22.2	22.2	22.2
	6-9years	31	68.9	68.9	91.1
	Greater than 10 years	4	8.9	8.9	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 6 represents the longevity of the enterprises in question. 22.2% represents those who have lasted for 5years or below, 68.9% represents those who have lasted for 6-9years, and 8.9% represents those who have lasted for 10years and above.

Table 7: What is the nature of your activity?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Commercial	36	80.0	80.0	80.0
	Industrial	9	20.0	20.0	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

The results seen on table 7 describe the nature of activity of the enterprises. 80% of them are commercial enterprise while 20% of them carry out industrial activities.

Table 8: What is the legal form of your enterprise?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Private Limited Company	36	80.0	80.0	80.0
	Public Limited Company	9	20.0	20.0	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 8 explains the legal form of the enterprises. 80.0% of them are registered as Public Limited Companies and 20.0% of them are registered as Public Limited Companies.

Table 9: Number of employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	greater than5 but less than 20 workers	27	60.0	60.0	60.0
	Greater than 21 but less than 40 workers	9	20.0	20.0	80.0
	Greater than 41 workers	9	20.0	20.0	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

The results found on table 9 show the number of employees. 60.0% represents employees who are greater than or equal to 5 but less than 20, 20.0% represents employees greater than or equal to 21 but less than 40 and 20.0% stands for employees greater than or equal to 41.

Table 10: What are your sources of finance?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Self-financing	5	11.1	11.1	11.1
	Borrowings	3	6.7	6.7	17.8
	External relations	4	8.9	8.9	26.7
	Other sources	8	17.8	17.8	44.4
	Both Equity and Debt	25	55.6	55.6	100.0
	Total	45	100.0	100.0	

Source: Field survey 2021

Table 10 represents the sources of finance of the sample population. 11.1% of the respondents use self-financing, 6.7% of the respondents use borrowings, 8.9% of the respondents use external relations, 17.8% of the respondents use other sources, and 55.6% of the respondents use both equity and debt.

Table 11: Equity(self-financing) is the most efficient source of capital structure

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	8.9	8.9	8.9
	Disagree	3	6.7	6.7	15.6
	Undecided	3	6.7	6.7	22.2
	Agree	25	55.6	55.6	77.8
	Strongly Agree	10	22.2	22.2	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 11 above showing that equity is the most efficient source of capital structure, 8.9% of the respondents strongly disagree to the fact that equity is the most efficient source of capital structure, 6.7% of the respondents disagree to the fact that equity is the most efficient source of capital structure, 6.7% of the respondents are undecided; that is they do not know whether equity is the most efficient source of capital structure, 55.6% of the respondents agree to the fact that equity is the most efficient source of capital structure and 22.2% of the respondents strongly agree to the fact that equity is the most efficient source of capital structure.

Table 12: The most readily available source of capital is debt

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	13.3	13.3	13.3
	Disagree	27	60.0	60.0	73.3
	Undecided	3	6.7	6.7	80.0
	Agree	4	8.9	8.9	88.9
	Strongly Agree	5	11.1	11.1	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 12 which stands for the idea that the most readily available source of capital is debt, 13.3% of the respondents strongly disagree to the idea that debt is the most readily available source of capital, 60.0% of the respondents disagree to the idea that debt is the most readily available source of capital, 6.7% of the respondents are undecided as to whether debt is the most readily available source of capital, 8.9% of the respondents agree to the idea that debt is the most readily available source of capital and 11.1% of the respondents strongly agree to the idea that debt is the most available source of capital.

Table 13: Internal sources of finance are 60% as to the successes of operating activities in enterprises

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	4.4	4.4	4.4
	Disagree	3	6.7	6.7	11.1
	Undecided	4	8.9	8.9	20.0
	Agree	9	20.0	20.0	40.0
	Strongly Agree	27	60.0	60.0	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 13 representing the fact that internal sources of finance are 60% as to the successes of the operating activities in the enterprise, 4.4% of the respondents strongly disagree to the fact that internal sources of finance are 60% of the successes of the operating activities in enterprises, 6.7% of the respondents disagree to the fact that internal sources of finance are 60% of the successes of the operating activities of the enterprise, 8.9% of the respondents are

undecided as the to the fact that internal sources of finance are 60% of the successes of the operating activities of enterprises, 20.0% of the respondents agree to the fact that internal sources of finance are 60% of the successes of the operating activities of enterprises and 60.0% of the respondents strongly agree to the fact that internal sources of finance are 60.0% successes of the operating activities of enterprises.

Table 14: There is no need for debts to be constituted in the capital structure

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	19	42.2	42.2	42.2
	Disagree	10	22.2	22.2	64.4
	Undecided	5	11.1	11.1	75.6
	Agree	8	17.8	17.8	93.3
	Strongly Agree	3	6.7	6.7	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 14 which analyses the idea that there is no need for debt to be constituted in the capital structure shows that; 42.2% of the respondents strong disagree to the idea that there is no need for debt to be constituted in the capital structure, 22.2% of the respondents disagree to the idea that there is no need for debt to be constituted in the capital structure, 11.1% of the respondents are undecided as to the fact that there is no need for debt to be constituted in the capital structure, 17.8% of the respondents agree to the idea that there is no need for debt to be constituted in the capital structure and 6.7% of the respondents strongly agree to the idea that there is no need for debt to be constituted in the capital structure.

Table 15: There is more risk with debt financing than with equity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	8.9	8.9	8.9
	Disagree	3	6.7	6.7	15.6
	Undecided	2	4.4	4.4	20.0
	Agree	26	57.8	57.8	77.8
	Strongly Agree	10	22.2	22.2	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 15 represents the fact that there is more risk with debt finance than equity shows that 8.9% of the respondents strongly disagree to the fact that there is more risk with debt finance than with equity, 6.7% of the respondents disagree to the fact that there is more risk with debt financing than with equity finance, 4.4% of the respondents are undecided as to the fact there is more risk with debt financing than with equity finance, 57.8% of the respondents agree to the fact that there is more risk with debt finance than with equity finance and 22.2% of the respondents strongly agree to the fact that there is more risk with debt finance than with equity finance.

Table 16: Borrowing from relations is more reliable than from financial institutions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	8	17.8	17.8	17.8
	Disagree	9	20.0	20.0	37.8
	Undecided	3	6.7	6.7	44.4
	Agree	19	42.2	42.2	86.7
	Strongly Agree	6	13.3	13.3	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 16 seeks to explain whether borrowings from relations is more reliable than from financial institutions shows that, 17,8% of the population strongly disagree to the fact that borrowing from relations is more reliable than from financial institutions, 20.0% of the respondents disagree to the fact that borrowing from relations is more reliable than from financial institutions, 6.7% of the respondents are undecided to the fact that borrowing from relations is more reliable than from financial institutions, 42,2% of the respondents agree to the fact that borrowing from relations is more reliable than from financial institutions and 13.3% of the respondents strongly agree to the fact that borrowing from relations is more reliable than from financial institutions.

Table 17: Equity and debt are necessary in all enterprises

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	4.4	4.4	4.4
	Disagree	4	8.9	8.9	13.3
	Undecided	3	6.7	6.7	20.0
	Agree	9	20.0	20.0	40.0
	Strongly Agree	27	60.0	60.0	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 17 which seeks to explain whether equity and debt are necessary in all enterprises shows that; 4.4% of the respondents strongly disagree to the idea that equity and debt are necessary in all enterprises, 8.9% of the respondents disagree to the fact that equity and debt are necessary in all enterprises, 6.7% of the respondents are undecided as to the idea that equity and debt are necessary in all enterprises, 20.0% of the respondents agree to the fact that equity and debt are necessary in all enterprises and 60.0% of the respondents strongly agree to the fact that equity and debt is necessary in all enterprises.

Table 18: An enterprise with a good management structure does not need to borrow finances

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	22	48.9	48.9	48.9
	Disagree	6	13.3	13.3	62.2
	Undecided	4	8.9	8.9	71.1
	Agree	6	13.3	13.3	84.4
	Strongly Agree	7	15.6	15.6	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 18 which presents the idea that an enterprise with a good management structure does not need to borrow finance shows that 48.9% of the respondents strongly disagree to the fact that an enterprises with a good management structure does not need to borrow finances, 13.3% of the respondents disagree to the fact that a good management structure does not need to borrow finances 8.9% of the respondents are undecided as to the fact that a good

management structure does not need to borrow finances 13.3% of the respondents agree to the fact that a good management structure does not need to borrow finances and 15.6% of the respondents strongly agree to the fact that a good management structure does not need to borrow finances.

Table 19: Most financial institutions encourage and provide loans to enterprises.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	6.7	6.7	6.7
	Disagree	5	11.1	11.1	17.8
	Undecided	6	13.3	13.3	31.1
	Agree	18	40.0	40.0	71.1
	Strongly Agree	13	28.9	28.9	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 19 presents the idea that most financial institutions encourage and provide loans to enterprises analyses that 6.7% of the respondents strongly disagree to the fact that most financial institutions encourage and provide loans to enterprises, 11.1% of the respondents disagree to the fact that financial institutions encourage and provide loans to enterprises, 13.3% of the respondents are undecided to the fact that most financial institutions encourage and provide loans to enterprises, 40.0% of the respondents agree to the fact that most financial enterprises encourage and provide loans to enterprises and 28.9% of the respondents strongly agree to the fact that most financial institutions encourage and provide loans to enterprises.

Table 20: The corporate strategies adopted and implemented are satisfactory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	6.7	6.7	6.7
	Disagree	4	8.9	8.9	15.6
	Undecided	4	8.9	8.9	24.4
	Agree	24	53.3	53.3	77.8
	Strongly Agree	10	22.2	22.2	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 20 presents the fact that the corporate strategies adopted and implemented are

satisfactory explains that shows that; 6.7% of the respondents strongly disagree to the fact that the corporate strategies adopted are satisfactory, 8.9% of the respondents disagree to the fact that the corporate strategies implemented are satisfactory, 8.9% of the respondents are undecided as to whether the corporate strategies adopted and implemented are satisfactory, 53.3% of the respondents agree to the fact that the corporate strategies adopted and implemented are satisfactory and 22.2% of the respondents strongly agree to the fact that the corporate strategies are satisfactory.

Table 21: All staff members are qualified enough to easily adapt to these emerging growth strategies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	8.9	8.9	8.9
	Disagree	3	6.7	6.7	15.6
	Undecided	2	4.4	4.4	20.0
	Agree	24	53.3	53.3	73.3
	Strongly Agree	12	26.7	26.7	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 21 seeks to analyze the notion that all staff members are qualified enough to easily adapt to these emerging growth strategies. 8.9% strongly disagree to the fact that all staff members are qualified enough to easily adapt to the emerging growth strategies, 6.7% of the respondents disagree to the fact that all staff members are qualified enough to easily adapt to the emerging growth strategies, 4.4% of the respondents are undecided as to whether all the staff members are qualified enough to easily adapt the emerging growth strategies, 53.3% of the respondents agree to the fact that all staff members are qualified to easily adapt to these emerging growth strategies and 26.6% of the respondents strongly agree to the fact that all staff members are qualified enough to easily adapt to the emerging growth strategies.

Table 22: Diversification corporate strategy improves the growth of the enterprise

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	5	11.1	11.1	11.1
	Disagree	4	8.9	8.9	20.0
	Undecided	2	4.4	4.4	24.4
	Agree	23	51.1	51.1	75.6
	Strongly Agree	11	24.4	24.4	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 22 presents the notion that diversification corporate strategy improves the growth of the enterprise. Analysis show that 11.1% of the respondents strongly disagree to the fact that diversification corporate strategy improves the growth of the enterprise, 8.9% of the respondents disagree to the fact that diversification corporate strategy improves the growth of the enterprise, 4.4% of the respondents are undecided as to whether diversification corporate strategy improves the growth of the enterprise, 51.1% of the respondents agree to the fact that diversification corporate strategy improves the growth of the enterprise and 24.4% of the respondents strongly disagree to the fact that diversification corporate strategy improves the growth of the enterprise.

Table 23: Vertical integration corporate strategy is preferable than horizontal integration

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	8.9	8.9	8.9
	Disagree	3	6.7	6.7	15.6
	Undecided	2	4.4	4.4	20.0
	Agree	25	55.6	55.6	75.6
	Strongly Agree	11	24.4	24.4	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 23 presents the notion that vertical integration corporate strategy is preferable than horizontal integration. Analyses show that 8.9% of the respondents strongly disagree to the

idea that vertical integration corporate strategy is preferable than horizontal integration, 6.7% of the respondents disagree to the fact that vertical integration corporate strategy is preferable than horizontal integration, 4.4% of the respondents are undecided as to whether vertical integration is preferable than horizontal integration, 55.6% of the respondents agree to the fact that vertical corporate strategy is preferable than horizontal integration and 24.4% of the respondents strongly agree to the fact that vertical integration corporate strategy is preferable than horizontal integration.

Table 24: It is profitable to open sub branches out of Cameroon rather than concentration

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	8.9	8.9	8.9
	Disagree	4	8.9	8.9	17.8
	Undecided	3	6.7	6.7	24.4
	Agree	25	55.6	55.6	80.0
	Strongly Agree	9	20.0	20.0	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 24 presents the notion of whether it is profitable to open sub branches out of Cameroon rather than concentration. 8.9% of the respondents strongly disagree to the fact that it is profitable to open sub branches in Cameroon, 8.9% of the respondents disagree to the fact that it is profitable to open sub branches out of Cameroon, 6.7% of the respondents are undecided as to whether it is profitable to open sub branches out of Cameroon, 55.6% of the respondents agree to the fact that it is profitable to open sub branches out of Cameroon and 20.0% of the respondents strongly agree to the fact that it is profitable to open sub branches out of Cameroon than to concentrate.

Table 25: The cost of implementing diversification corporate strategy requires a huge amount of capital

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	38	84.4	84.4	84.4
	No	7	15.6	15.6	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 25 presents the notion on if the cost of implementing diversification corporate strategy requires a huge amount of Capital. 84.4% of the respondents accept the fact that the cost of implementing corporate strategy requires a huge amount of capital and 15.6% of the respondents deny the fact that the cost of implementing diversification corporate strategy requires a huge amount of capital.

Table 26: Growth strategies such as diversification can be financed through equity and no debt

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	14	31.1	31.1	31.1
	No	31	68.9	68.9	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 26 presents the idea that growth strategies such as diversification can be financed through equity and no debt. 31.1% of the respondents accept the fact that growth strategies such as diversification can be financed through equity and no debt and 68.9% of the respondents deny the fact that growth strategies such as diversification can be financed through equity and no debt.

Table 27: Diversification strategy can be achieved without debt finance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	36	80.0	80.0	80.0
	No	9	20.0	20.0	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 27 presents the notion that diversification strategy can be achieved without debt finance. Analysis show that, 80.0% of the respondents accept the fact that diversification strategy can be achieved without debt finance and 20.0% of the respondents deny the fact that diversification strategy can be achieved without debt finance.

Table 28: If integration corporate strategy is to be implemented, the internal capital of both enterprises will be sufficient

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	33	73.3	73.3	73.3
	No	12	26.7	26.7	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 28 presents the notion of if integration corporate strategy is to be implemented, the internal capital of both enterprises will be sufficient. 73.3% of the respondents stood for the fact that if integration corporate strategy is to be implemented, the internal capital of both enterprises will be sufficient and 26.6% of the respondents stood against the fact that if integration corporate strategy is to be implemented, the internal capital of both enterprises will be sufficient.

Table 29: Vertical and horizontal integration corporate strategies are very costly to implement and require a lot of finance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	33	73.3	73.3	73.3
	No	12	26.7	26.7	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 29 presents the idea that vertical and horizontal integration corporate strategies are very costly to implement and require a lot of finance. 73.3% of the respondents were for the fact that vertical and horizontal integration corporate strategies are very costly to implement and require a lot of finance while 26.7% of the respondents were against the fact that vertical and

horizontal integration corporate strategies are very costly to implement and require a lot of finance.

Table 30: Combining equity and debt are very important for carrying out internationalization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	39	86.7	86.7	86.7
	No	6	13.3	13.3	100.0
	Total	45	100.0	100.0	

Source: Field survey, 2021

Table 30 presents the idea of whether combining equity and debt are very important for carrying out internationalization. 86.7% of the respondents accepted the fact that combining equity and debt are very important for carrying out internationalization and 13.3% of the respondents went against the fact that combining equity and debt are very important for carrying out internationalization.

Section II: ANALYSIS OF RESULTS

Here will be looking at the methods used in analyzing data, discuss our results gotten and then give possible recommendations

Inferential Analysis

Our focus here is the different methods used in analysing data such as Correlation Analysis, the Analysis of Variance Method (ANOVA), Regression Coefficient and test for heterosecdasticity.

Correlation Analysis

The analyses began with a correlation analysis of the variables included in the estimation. This will act as a prelude to the nature of the relationship between the variables in the model.

From the findings as presented on the table below, it is observed that there a positive correlation exists between the independent variables, Corporate Strategy, Diversification Corporate Strategy, Integration Corporate Strategy and Internationalization Corporate Strategy and the dependent variable Capital Structure. The analysis indicates the coefficient of correlation, r equals to 0.270, 0.436, 0.246 and 0.712 for Corporate Strategy,

Diversification Corporate Strategy, Integration Corporate Strategy and Internationalization Corporate Strategy respectively. The positive relation shows that an increase in these variables will be accompanied by an increase in the Capital Structure of registered SMEs in Yaoundé. These results agree with Ogilo, (2012) that there is a positive correlation between the independent variables Corporate Strategy, Diversification corporate strategy, integration corporate strategy and internationalization corporate Strategy and the dependent variable capital structure.

From the correlation table, it can further be deduced that a positive relationship exists among all the independent variables. This shows that among the independent variables, an increase in any one of the variables is accompanied by an increase in the other variables. In addition, the correlation coefficient among the independent variable can act as an indicator for multicollinearity if the coefficient is above 0.8. However, as observed, none of the correlation coefficient is above 0.8. Thus, multicollinearity is not a problem among the variables in the model.

Table 31: Correlation Result

		Capital Structure	Corporate Strategy	Diversification Corporate Strategy	Integration Corporate Strategy	Internationalization Corporate Strategy
Capital Structure	Pearson Correlation	1	0.138	0.436**	0.246	0.712**
	Sig. (2-tailed)		0.270	0.000	0.069	0.000
	N	45	45	45	45	45
Corporate Strategy	Pearson Correlation	0.158	1	0.177	0.155	0.117
	Sig. (2-tailed)	0.260		0.178	0.237	0.375
	N	45	45	45	45	45
Diversification Corporate Strategy	Pearson Correlation	0.426**	0.177	1	0.549**	0.655**
	Sig. (2-tailed)	0.000	0.178		0.000	0.000
	N	45	45	45	45	45
Integration Corporate Strategy	Pearson Correlation	0.236	0.155	0.549**	1	0.592**
	Sig. (2-tailed)	0.069	0.237	0.000		0.000
	N	45	45	45	45	45
Internationalization Corporate Strategy		0.712**	0.117	0.655**	0.592**	1
		0.000	0.375	0.000	0.000	
		45	45	45	45	45
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: Field Survey, 2021

Analysis of Variance (ANOVA) Results

The study used ANOVA to establish the significance of the regression model. In testing the significance level, the test is considered significant if the p-value is less than or equal to 0.10, that is 10%.

From the ANOVA table below both the Adjusted R square and the R square coefficients are presented. The Adjusted R squared is the coefficient of determination which indicates the variation in the dependent variable due to changes in the independent variable adjusting for the inclusion of additional variables in the estimation. The findings in the below table indicate an adjusted R squared value of 0.710, showing that 71.0% of variation in the capital structure of SMEs in Yaoundé is due to changes in Corporate Strategy, Diversification Corporate Strategy, Integration Corporate Strategy and Internationalization Corporate Strategy. This therefore implies that, 29.0% are accounted for by other variables not included in the model estimated.

The ANOVA table also gives the global fit of the model. Specifically, it shows whether jointly the variables in the model can explain the capital structure. From the results, it is observed that the F-statistics is 7.479 with a P-Value of 0.00. Thus, the model is well fitted and the variables (Corporate Strategy, Diversification Corporate Strategy, Integration Corporate Strategy and Internationalization Corporate Strategy) in the model can explain the capital structure of registered SMEs in Yaoundé.

Table 32: ANOVA Result

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	41.021	4	24.255	7.479	.000
	Residual	16.757	40	.419		
	Total	57.778	44			

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.843	0.710	0.681	0.64725

Source: Computed by Author

2.1.3 Regression Coefficients Results

The results of the multiple regression analysis are presented in Table **4.7**. The results show the estimated coefficients for Corporate Strategy, Diversification Corporate Strategy, Integration Corporate Strategy and Internationalization Corporate Strategy which are the independent variables influencing the capital structure. Both the unstandardized and standardized coefficients are presented.

The results of the estimation show that a positive relationship exists between the independent variables and the dependent variable. This means that an increase in these variables will result to an increase in the perception of capital structure achieved by registered SMEs in Yaoundé. For the Corporate Strategy, the results showed that an increase in the perception of the client appraisal as a measure for credit management by 1 point will increase the perception of capital structure as measured in terms of the different items by 0.268 points. This effect is statistically significant at the 1% level of significance, implying that Corporate Strategy is an important instrument to using when drawing policies to manage the Corporate Strategy.

The coefficient of Diversification Corporate Strategy is positive, indicating that an increase in the perception of use of Diversification Corporate Strategy results to an increase in the perception of capital structure. The results showed that if Diversification Corporate Strategy increases by 1 point, the perception of capital structure will increase by 0.601 point. The effect of Diversification Corporate Strategy is statistically significant at the 1% level of significance, indicating that it is an important instrument to use when developing strategies to manage Corporate Strategy.

In terms of Integration Corporate Strategy, the results showed that an increase in the perception of use of Integration Corporate Strategy as an instrument for Corporate Strategy by 1 unit will increase the perception of capital structure by 1.339 point. This effect is however, statistically insignificant at the 1% level of insignificance, implying that Integration Corporate Strategy is an important instrument statistically to use when drawing policies to Corporate Strategy.

Again Internationalization Corporate Strategy, the results showed that an increase in the perception of use of Internationalization Corporate Strategy as an instrument for Corporate Strategy by 1 unit will increase the perception of capital structure by 1.632 point. This effect is however, statistically insignificant at the 1% level of significance, implying that

Internationalization Corporate Strategy is an important instrument statistically to use when drawing policies to manage Corporate Strategy.

The results reported were verified whether the assumptions of Ordinary Least Squares (OLS) were satisfied. The tests conducted were heteroscedasticity, multicollinearity and normality. The test for heteroscedasticity is presented in Table

Table 33: Regression Coefficient Result

Model		Unstandardized Coefficients		Standardized Coefficients	T	Significance
		B	Std. Error	Beta		
1	(Constant)	5.262	0.751		7.003	0.000
	Corporate Strategy	0.268	0.114	0.260	2.347	.004
	Diversification Corporate Strategy	0.601	0.451	0.332	5.765	0.000
	Integration Corporate Strategy	1.339	0.457	0.523	2.931	0.006
	Internationalization Corporate Strategy	1.632	0.158	1.364	10.599	0.000

*****, **, and * significant at 1%, 5% and 10% level of significance**

Source: Computed by Author

Test for heterosecdasticity

The heteroscedasticity result as presented on the following table shows that the Chi Square value is 0.74 which is very low. Thus, the null hypotheses of homoscedasticity (that is constant variance of the residual) cannot be rejected at the 10% level of significance. This therefore means that there is no problem of heteroscedasticity.

In terms of the multicollinearity (high relationship between the independent variables) test, it was conducted using the Variance Inflation Factor (VIF) and the Tolerance (1/VIF). The result is presented in Table 35.

Test for heterosecdasticity

Table 34 :Breusch Pagan Test for heteroscedasticity

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity
Ho: Constant variance
Variables: fitted values of capital structure
chi2(1) = 0.74
Prob> chi2 = 0.3801

Source: Computed by Author

The result of the Variance Inflation Factor (VIF) shows that both the average and individual VIF values are less than 2.5 if there is multicollinearity. Thus, there is evidence of no multicollinearity among the independent variables used in the regression analyses.

Table 35:VIF Test for Multicollinearity

	VIF	**1/VIF**
Corporate Strategy	1.199	0.834
Diversification Corporate Strategy	2.201	0.454
Integration Corporate Strategy	1.735	0.576
Internationalization Corporate Strategy	2.133	0.469
Mean VIF	1.706	

Source: Computed by Author

The result of the Variance Inflation Factor (VIF) shows that both the average and individual VIF values are less than 2.5 if there is multicollinearity. Thus, there is evidence of no multicollinearity among the independent variables used in the regression analyses.
The last test presented in Table 36 below is the Jacque Bera test for normality

Table 36: Jarqu-eBera Test for Normality of Residuals

Jarque-Bera	Normality test: Chi (2) = 0.3662	P-Value = 0.8174
Jarque-Bera	Test for Ho: residuals normally distributed	

Source: Computed by Author

The result shows that the Chi Square statistics is 0.3662, which is very low. This yields a P-Value of 0.8174 implying that the null hypothesis of normality in the residuals cannot be rejected. Thus, there is sufficiently statistically evidence that the residuals are normally distributed.

2.2 DISCUSSION OF RESULTS

On Corporate Strategy, the study results showed that SMEs in Yaoundé are engaged in Corporate Strategy. More than 70% of respondents either agreed or strongly agreed this was done in their organisation. The regression results revealed that Corporate Strategy increases the capital structure of SMEs in Yaoundé. This could be because Corporate Strategy improves on the efficiency of policy application of SMEs in Yaoundé thereby positively impacting on the key elements of capital structure.

The study findings established that Diversification Corporate Strategy helps SMEs in Yaoundé to get credible customers who are able to pay, SMEs in Yaoundé help increase capital structure. The study shows that this effect is statistically significant at the 1% level of significance. Therefore, the results confirm to the study's hypothesis, which may depict that, there is a positive relationship between a firm's diversification strategy and the choice of her capital structure.

On Integration Corporate Strategy, the study revealed that it has a positive correlation on the capital structure of SMEs in Yaoundé. The study results showed that On Integration Corporate Strategy is an integral of Corporate Strategy tools which affects capital structure of SMEs in Yaoundé positively. Therefore, the results confirm to the study's hypothesis, which may depict that, there is a correlation between integration within firms and the choice of their capital structure.

Equally on Internationalization Corporate Strategy, the study revealed that it has a positive effect on the capital structure of SMEs in Yaoundé. The study results showed that Internationalization Corporate Strategy affects capital structure of SMEs in Yaoundé positively. This effect is significant at 1 % level of significant. Therefore, the results confirm to the study's hypothesis, which may depict that, internationalisation decisions have a positive impact on a firm's capital structure decision.

RECOMMENDATIONS

The enrichment of this topic should incorporate more companies of various sizes. Indeed, as all interviewees emphasized, this relationship would most likely become more significant if larger companies were investigated. A likely scenario is then that the corporate strategy would be even more dominating in regards to the relationship with the capital structure, something that was also emphasized on during the interviews. Therefore, a recommendation for future research is to start with larger companies and investigate whether the findings of this research could be extrapolated to those companies as well. Similarly, as emphasized by the interviewees, tax-shields are most likely also of higher importance for those types of companies, ultimately leading to different patterns in regards to the pecking order theory and the trade-off theory.

Moreover, a related recommendation is also to investigate companies outside the commercial industry. As an example, a consulting company typically does have physical assets to the same extent as a commercial company. Conclusively, it is most likely harder for them to issue large amounts of new debt as they have less collateral, leading to potentially different conclusions in regards to the relationship between the corporate strategy and the capital structure. Ultimately, patterns in regards to the pecking order theory and trade-off theory would then potentially also differ for those types of companies. Furthermore, most private companies have been investigated in this research; a recommendation for future studies is also to include public companies in the research. The findings clearly indicate that different types of ownership affect the relationship differently. By including publicly traded companies, an additional type of ownership would also be incorporated, eventually leading to other patterns and conclusions. By including public companies, factors such as risk could also be included in the study, as the systematic risk could easily be derived by looking at their betas. Lastly, taxes are overall a relevant and important topic that should be if high relevance to further investigates in future studies.

GENERAL CONCLUSION

Considering that capital structure can be a crucial driver of firm performance, several studies have searched for determinants of firms' debt level. In particular, while previous research has focused on analyzing the effects brought about by firms characteristics, this research responds to the call for further studies regarding the strategy/capital-structure dilemma. The results found in (chapter 4) of the research showed that 70% of registered SMEs in Yaoundé either agreed or disagreed to the fact that there is appositive relationship between that corporate strategies and their capital structures.

We analyzed the effects brought about by vertical integration, diversification and internationalization, considered simultaneously and independently. In greater detail, the outcomes of this research evidenced that integrated and internationalized firms tend to have lower external financial exposure (i.e., negatively related to debt amount), while diversification strategies lead to higher debt ratios. Moreover, these results may also be relevant for companies seeking to align their capital structure with that of their peers, according to their corporate strategic decisions. Indeed, this research sheds light on trends and habits of competitors that may be useful for managerial decisions.

SUGGESTION FOR FURTHER RESEARCH

This study is not exempt from limitations that also pave the way for future research directions. First, this study has focused on registered private limited company in Yaoundé, which is a relevant context in which to conduct this research because of this financial market's suitability in terms of size, efficiency and diversity among firms but future studies should further validate our results in other countries and geographical areas.

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APPENDICES

QUESTIONNAIRE

Dear Respondent,

I am **MANGIE NGIEBONG AMELYNE,** a final year student in the Higher Technical Teachers' Training College Ebolowa. Department of Innovation, Commercial Techniques and Industrialization, of the Accountancy option. Carrying out a research project titled "CORPORATE STRATEGY AND CAPITAL STRUCTURE IN SMALL AND MEEDIUM SIZE ENTERPRISES IN CAMEROON". Please kindly respond to the questions below, no wrong answers. This is purely for academic purpose and confidentiality is guaranteed.

SECTION A: PERSONAL INFORMATION

1: Gender; Male □ Female □

2) Age: □<20 years, □between 20-29 years, □√between 30-39 years, □between 40-49 years, □>50-59 years; , □>60

3: Level of Education; Primary education [ ], secondary education [ ], higher education [ ]

4: Working Experience: less than 2years [ ], 3-6years [ ], 7-9years [ ],greater than 10years [ ]

5: Post of Responsibility; Manager [ ], Accountant [ ], Secretary [ ], Cashier [ ] Others [ ].

6: How long has the enterprise been existing? Less than 5years [ ], 6-9years [ ], greater than 10 years[ ]

7: what is the nature of your activity? Commercial [ ] Industrial [ ]

8: What is the legal form of your enterprise? Private Limited Company [ ]

Public Limited Company [ ]

9: Number of employees: greater than5 but less than 20 workers [ ]

greater than 21 but less than 40 workers [ ]

greater than41 workers [ ]

SECTION B: CAPITAL STRUCTURE

10. What are your sources of finance? Self-financing [ ], Borrowings [ ], External relations [ ], other sources [ ].

Please respond to the questions below following the codes given

1= strongly disagree 2= Disagree 3= Undecided 4= Agree 5= Strongly Agree

S/N		1	2	3	4	5
11	Equity(self-financing) is the most efficient source of capital structure					
12	The most readily available source of capital is debt					
13	Internal sources of finance are 60% as to the successes of operating activities in enterprises					
14	There is no need for debts to be constituted in the capital structure					
15	There is more risk with debt financing than with equity					
16	Borrowing from relations is more reliable than from financial institutions					
17	Equity and debt are necessary in all enterprises					
18	An enterprise with a good management structure does not need to borrow finances					
19	Most financial institutions encourage and provide loans to enterprises.					

SECTION C: CORPORATE STRATEGY

S/N		**1**	**2**	**3**	**4**	**5**
20	The corporate strategies adopted and implemented are satisfactory					
21	All staff members are qualified enough to easily adapt to these emerging growth strategies					
22	Diversification corporate strategy improves the growth of the enterprise					
23	Vertical integration corporate strategy is preferable than horizontal integration					
24	It is profitable to open sub branches out of Cameroon rather than concentration					

SECTION D: DIVERSIFICATION CORPORATE STRATEGY

Please kindly tick under “YES” or “NO” besides each question

S/N		YES	NO
25	The cost of implementing diversification corporate strategy requires a huge amount of capital		
26	Growth strategies such as diversification can be financed through equity and no debt		
27	Diversification strategy can be achieved without debt finance		

SECTION E: INTEGRATION CORPORATE STRATEGY

S/N		YES	NO
28	If integration corporate strategy is to be implemented, the internal capital of both enterprises will be sufficient		

29	Vertical and horizontal integration corporate strategies are very costly to implement and require a lot of finance		

SECTION F: INTERNATIONALIZATION CORPORATE STRATEGY

30	Combining equity and debt are very important for carrying out internationalization		

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