CONTRACTUAL OBLIGATION OF CLAIMS. A FACTOR INFLUENCING INVESTORS CHOICES OF CAPITAL

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Abstract

Advocacy for entrepreneurship and innovation to ease unemployment is stampeded by funding. Uncertainty of reward, unenforceability of rights in case of default, obscures attracting financiers. Risk of investment security and returns, information opaqueness and their effect on securing funding entrepreneurship has received little attention. The study investigated how contractual obligations of claims influence choice of capital in emerging markets, as against capital structure optimality intrusion in investors' decision. A cohort of 250 potential investors responded to structured questionnaires in a survey, and quantitative approach used to analyse the data on how contractual obligation of claims affects choice of capital. The study revealed influence of security over assets and contracted claims on decisions. Perception of trust is gradually giving way to formality and choice of debt in investment decisions. Developing the bond market, trade off equity, is eminent to mobilize funds to develop entrepreneurship in emerging economies.

Key words: Capital structure; Contractual obligation; Entrepreneurship; Information asymmetry.

1. Introduction

Unemployment in today's world is a canker that governments are finding it difficult to surmount. Government, the largest employer, lacks the incentive and capacity to meet the high demand for jobs by the teeming youth turning out from schools and universities every year. Entrepreneurship is being advocated by governments and other stakeholders, the world over, to motivate people to venture into private business (Bongani and Chinaza (2018; UNDP, 2018). Emerging economies should consider new strategies on entrepreneurship development to ease unemployment in society. This should be a measure of economic growth of individual investors making the economy (Esposito, 2018) than classical models of GDP and others that do not see direct improvement in the lives of the people. Investment should create value and wealth, economical to sustain the interest and objectives of the investor.

The interest and objectives, reward systems cherished and desired by the investor need to be protected and secured. Otherwise, investors will turn away from investing in business ventures, as, “The entrepreneur is motivated by self-interest” (Adam Smith, in Slavin, 2002; pg 86; Eaton, Eaton & Allen 2005 pg 16). There are new and existing businesses that may want to innovate and usher in new ideas to break new grounds, but for want of finance as a motivator (Fischer, Malycha, and Schafmann, 2019).

There is a huge demand for finance by potential businesses that are not met, and others with surplus funds to invest but reluctant, for want of security. They may lack the right information on cost and benefits that may obscure economic development and growth. Information opaqueness in this direction has affected finance decisions in many ways (Vy Le, Thi Bich, 2017), choices of capital and fund flow (Hancock, 2009, Xiaoyan, 2008).

Securing funds for small businesses to start up or grab an opportunity to break new grounds is a problem in emerging economies. UNCTAD (ITE/TEB/MISC 3-2002) revealed that access to finance has been a key element for Small and Medium scale Enterprise (SMEs) to succeed in their drive to build productive capacities, compete, create jobs and contribute to poverty alleviation in developing countries. SMEs cannot acquire or absorb new technologies and expand to compete in global market or even strike linkages with larger firms. Funding source, equity or debt, may have its own interest and reward systems. Capital structure comes with it risk of financial distress to equity holders in geared firm in case of default. However, in emerging economies equity capital and its reward system is not all that prominent.

Corporate dividend came up in the early sixteenth century in Holland and Great Britain when the captains of sailing ships, as entrepreneurs, started selling financial claims to investors. This entitled them to share in the proceeds, if any, of the voyages. At the end of the voyage, the profits and the capital were distributed to investors liquidating and ending the ventures life (Al-Malkawi, Rafferty and Pillai, 2010). This shows that the important security at the early stages of the development of shareholding was trust due to close relation between the parties. The time span and life cycle of the business venture was determinable to facilitate liquidation and valuation of interest and stakes of the parties. Risk of uncertainty of returns and repayment was minimal and avoidable.

The development of public limited liability companies to raise more funds for expanded business and projects brought in large numbers of investors from different background and interest that eroded the factor of trust. In an environment lacking relevant information to make informed decision how is capital structure theory affecting investors’ choices? Where there is unpredictable level of uncertainty investors tend to be risk averse, avoid uncertainty for certainty (Thornton and Ribeiro Soriano, 2011). Craving for certainty in discomfort, unstructured or ambiguous situation investors may trade off equity for debt capital as motivator for investment performance.

A business may choose and select either equity or debt capital as its source of funding according to the preference of the investor or market dictates (Eaton, Eaton, & Allen; 2005). In the choice processes it is fundamental to receive specified needs and satisfaction in exchange for consideration given which is assured (Abbott & Pendlebury, 1994). Each side must promise to give or do something for the other (Riches & Allen, 2011). Simply talking about trust in business transactions is not enough for the sake of risk of default and uncertainty. The transactions and agreements preferably should be enshrined in contract as cherished by the parties. The contract should emphasized the fact about will, agreement, obligation, promise, and commitment, staying true to one’s commitment, cooperation, sanction and bond (Pesqueux, (2015).

For lack of assurance and contractual engagements for better and regular rewards and protection of investors’ assets, there is the possibility of trade off of equity for other financial

assets in different structures which this study addressed. The study investigated the effect of contractual obligation of claims on choice of capital in emerging economies, environment of information opaqueness. It is important to unveil the mystery surrounding the inhibition of flow of funds for equity investment in emerging economies. Equity should have greater reward to compensate for its risk of financial distress and enjoy good patronage. However, equity has limited attraction. The study investigated the effect of reward on choice of capital, determine the extent to which risk affects finance and investment, and finally establish the extent to which quest for security on assets influences choice of financial assets for entrepreneurship development.

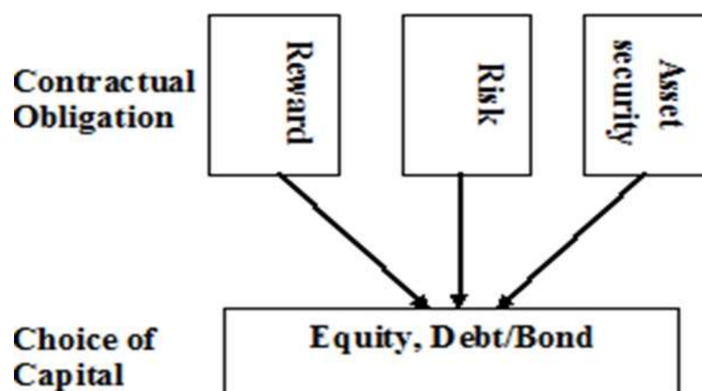
1.1. Hypothesis

a. Reward system influences the choice of capital in investment and finance decision.
b. Risk of default influence the choice of capital type in investment and finance decision.
c. Quest for security is a determinant in choosing investment assets

1.2. Conceptual Framework

The conceptual framework (Figure 1) established the relationship between reward system, risk return compensation and security on assets as dependent variables, and choice of capital structure (equity and debt) as the independent variables. The reward system of interest and dividend and how they affect performance (profit), the level of the return and how they compensate for risk taken and security of investment on assets contracted, plays significant role in investment decisions. The objective then is to bring to fore the ingredient of contractual obligation for rewards in investment engagement as against trust of the sixteenth century business adventurism. This dispensation acknowledges that capital structure is a response to corporate behaviour in investment decision and not as predetermined by management (Antoniou, Guney, Paudyal, 2019). In effect to fund entrepreneurship in SMEs through equity, with all the associated risks, is not attractive and feasible without contractual obligation.

Figure 1 – Conceptual framework



2. Literature Review

Business serves a known interest in a given market, an opportunity that goes with reward as the self-interest and profit motive of the entrepreneur (Slavin, 2002, Eaton, Eaton &Allen 2005). The business activity must be financed by equity or debt in a preferred structure (Ross, Westerfield, Jaffe, 2002; Bodie, Kane & Marcus, 2002). The entrepreneur is informed by available information in making the choice. Relationships evolving out of the transactions entered into should clearly specify the objectives of the exchanges made. Value is exchanged for value and business should create value substantial enough to provide security and reward, as expected by the investing parties.

The motivation of the investor is the protection of the value into the foreseeable future to avoid risk of loss. The relationships, objectives and exchanges may imply contractual commitment based on specific terms and conditions, which should be fulfilled satisfactorily, in an acceptable legal form of contractual obligations. The investment assets must be secured. Default in the processes in terms of the commitments in the exchanges, at any stage of the transactions can spell out financial distress. The business as an independent legal person given funds has to operate and reward its contributors in relationship that contractually bind the business to honor the terms and conditions, either specifically stated or not. Any anticipation on the part of the financiers that their reward may not be met and their value in the investment not secured may affect their investment ego.

2.1. Self Interest as Investment Drive

The private man going into business is motivated by his earnings, profit. The invisible hand, profit motive or economic self-interest (Slavin, 2002, Eaton, Eaton &Allen 2005) in liberal economies plays a great role as to who should be in business. In any choice situation, the individual makes the choices that allow him or her to attain the highest possible ranking in his or her preference ordering (Eaton, Eaton &Allen, 2005. pg 15-16). Any anticipation of loss of the self-interest motive may turn investors off. In an environment of information opaqueness and uncertainty on the security of returns and assets, attraction to invest is lost. It should be expected that where dividend payment is at the discretion of management and uncertainty surrounding equity rewards and security, investors trade off equity for debt and other assets promising certainty of returns with contractual obligation. Developing the bond market is good for entrepreneurship funding.

2.2. Capital Structure

Capital structure is the liabilities or claims on the firm's resources, that the firm is obliged to pay rewards. The resources are used by the firm to create wealth from which rewards are paid and repay the principal. A firm can choose among alternative capital structures; issuing large or little amount of debt, floating-rate preferred stock, warrant, convertible bonds, caps and callers (Ross, Westerfield, Jaffe, 2002; Bodie, Kane & Marcus, 2002). Capital structure theory focuses on the decision to depend heavily or not on debt sources of funding the firm's activities, a discretion that can affect the value of the firm. The levered firm, with more debt than equity, may not be attractive to equity holders because the value of equity declines. The equity shareholder will be better off, only when the firm is able to optimize the structure and ensure a good balance between equity and debt.

However, Modigliani and Miller (MM) (1958) observed that a firm cannot change the value of its outstanding securities by changing its capital structure; the value of the firm remains same under different capital structures. Therefore no capital structure is any better or worse than

other. Modigliani–Miller theorem explains that, under a certain market price process, the classical random walk, absence of taxes, bankruptcy costs, agency costs and asymmetric information in efficient market, the value of a firm is unaffected by how that firm is financed. Further, Modigliani and Miller (1958) hypothesized that risk to equity holders rises with leverage; as such the leveraged firm may have greater range of earnings per share or returns expectations. Equity holder may earn nothing in value or value declines in bad times and may make good returns in good times better and higher than the unlevered firm may.

The onerous should be on agency to make more returns to pay interest with enough to compensate equity holders for their risk otherwise investors would trade off equity for debt capital. In developing countries, some specific factors like information availability and cultural dispensation in addition to common variables across countries may influence investment decisions (Booth, Aivazian, Dernirguc-Kunt and Maksimovic, 2002).

2.3. Common Stock

Common stock holders have right to vote and elect directors of the company who in turn elect corporate officers; have right to enjoy new shares issued; share proportionately in assets remaining after liabilities have been paid in liquidation; right to vote on matters of importance as mergers at the Annual General Meeting or at special meeting. Shareholders receive their returns through dividend which is paid at the discretion of the board of directors' declaration. There is no liability or obligation to declare and pay dividend and therefore there is no default on the part of the company or be under any threat of bankruptcy. This presents serious risk to the investor in equities. In economies with low income, equity will not be attractive means of earnings to add to limited disposable income. With small business entities the proprietor doubles as owner and agent of the firm in which case capital structure may not be a good determinant of risk and performance (Phooi M;ng, Rahman and Sannacy, 2017). Entrepreneurs in such small businesses may not attract equity as they may want to plough back profits against paying dividend and avoid dilution of control. Debt capital is their best option and this call for the development of the bond market.

2.4. Debt Capital

Long term debt is a contractual obligation on the company to pay fixed sums of money as interest to bondholders at stipulated time and the principal at maturity. Any default may compel the firm into bankruptcy especially where the firm has limited valuable assets to cover the debt. The interest on the bond is an expense and is a tax deductible that may limit the level of tax liability and the company having more after tax income. The contractual relation for routine and regular payment of interest and principal really edges and compel management to perform and achieve more than necessary to meet the debt obligation to avoid liquidation. Debentures and bonds are long term debt and the obligation for repayment would be more than one year. In economies with weak information system and low disposable income, debt capital is attractive to investors. Entrepreneurs will appreciate a buoyant debt market to tap for funds.

2.5. Volatility of Earnings

Volatility or business risk is a proxy for the probability of financial distress and it is generally expected to be inversely correlated with leverage. Several measures of volatility have been used in empirical studies such as standard deviation of the return on sales, standard deviation of the difference in operating cash flow scaled by total assets, or standard deviation of the percentage change in operating income (Xiaoyan, 2008). Firms with high volatility in earnings face a

higher risk when earnings level drops below the debt service commitment. Equity has higher risk and not attractive under this condition and debt with contractual terms may be preferred.

2.6. Contractual Obligation

A contract is "a promise or a set of promises which the law will enforce" Sir Fredrick Pollock (quoted in Riches & Allen, 2011). Contract is defined by the Oxford Dictionary of English in different ways including;

a) as a written or spoken agreement, especially one concerning employment, sales or tenancy that is expected to be enforceable by law
b) the branch of law concerned with the making and observation of contracts- the law of contract
c) Enter into a formal and legally binding agreement.

A contract is an agreement which legally binds the parties. The contract as an agreement should come about as a result of an offer and acceptance, contain an element of value known as consideration and the parties intend to create legal relations. An offer is a definite promise to be bound on certain specific terms. Acceptance may be in writing or oral and it must be unqualified and must correspond to the terms of the offer (Abbott & Pendlebury, 1994; Riches & Allen, 2011). Consideration of value, an element of exchange, is the bedrock in any negotiated contract. The consideration is some benefit accruing to one party, or some detriment suffered by the other, a promised sacrifice (Riches & Allen, 2011; Abbott & Pendlebury, 1994). Parties in financial and investment transaction and decision making should be clear in their minds as to whether they want to enter into a formal and legal binding agreement defined, operational and be managed under the terms and conditions of contract law and finally to be enforceable (Pesquex, 2012).

The shareholders are entitled to dividend declared by management at their discretion and not under any obligation to make such declaration. The dividend is paid after all other obligations of claim owed other claimants are paid. If nothing is left after the interest of the creditors are met shareholders go with nothing. When the company fails and is liquidated, per their limited liability status, the shareholders can lose up to their investment (Bodie et al 2002).

Bond or loan is a security that is issued with borrowing arrangement. A corporate bond provides means for private firms or company to borrow money directly from the public (Bodie et al 2002). The obligation to pay reward and repay principal is documented and sealed. We can then conveniently say there is a valid contract, which is legally enforceable at the law courts.

3. Methodology

The research is a descriptive design using the survey research strategy for data collection. The survey strategy chosen helped address the broad nature of the work and areas covered to ensure economy (Saunders et al 2007). The quantitative technique is used to analysis the data with the help of the statistical software, SPSS, applying the chi-square and the correlation tools to find out the relation between contractual obligation on returns and the security of investment assets and choice of capital at significant values of between 5%.and 10%

The test is to establish the relationship between reward system, risk return compensation and security on assets contracted and enforceable as dependent variables, and choice of capital structure (equity and debt) as the independent variable. The reward system of interest and repayment of principal on the part of debt capital is contractual and enforceable. Dividend reward to equity and repayment of capital is not contractual. Reward on investment and its

security and avoidance of risk are major factors considered by investors but theory lays emphasis on capital structure. This work, as part of a broader study on developing the bond market, is drawing attention to the significance of these variables and their influence on investors in efforts of raising funds for SMEs development to ease unemployment in emerging economies.

The population for the study was individual potential investors and technical persons. The possibility of covering persons in business and requires extra funding as deficit units; potential entrepreneurs who require assistance in the form of capital of any kind for their business activities and those with surplus funds ready to lend it out for some reward or returns was considered. The study selected a sample of 250 potential investors to respond to structured questionnaires. Forty volunteers were selected and given the requisite training and skills to administer the questionnaires to get the best data for the study. Data summary and analysis is presented under section four below. Chi-square test statistics below;

$$X^2 = \sum_{i=1}^{r} \sum_{j=1}^{c} \frac{\left(f_{ij} - e_{ij}\right)^2}{e_{ij}},$$

Was used to analyze:

- Expected level of investment rewards effect on choice of business capital.
- High rewards above market average influence on choice of business capital.
- Risk of reward systems effect on choice of business capital.
- Contractual right for reward payment effect on choice of business capital.
- Contractual right for reward payment effect on choice of business capital.
- Asset secured as guarantee for capital repayment influence on choice business capital.
- The test came out with significant value of 0.056 for contractual obligation influencing choice of capital and 0.001for asset security.

3.1. Limitations

The major limitation is about data collection. Majority of Ghanaians are not exposed to and educated on financial markets and institutions and their objectives and functions except the banks. Information is opaque and therefore investing in equity share capital is very grey to the individual investor. Responses made to some of the questions by such category of individuals may be by their own cultural understanding and not a reflection of the technical position. However, it really gave the study a true picture and objective perception of the people concerning their investment dispositions. Painstaking effort was made to equip the questionnaire administrators with requisite skills to understand the respondents through interaction.

4. Data Summary, Descriptive Presentation and Analysis

Data for the study were collected through questionnaire in a survey conducted across the country for a broader work developing the bond market for economic growth. Notable responses that came up from the potential investors were that they might want to take up loans, pay interest and pay back according to the terms and conditions of the loan. They were of the conviction that it will serve them right to manage the business efficiently and effectively in their philosophies and cultures. It will ensure the stability and speedy growth of the business by ploughing back profits. In summary the potential investors mince no words in advocating for stiffer controls in operations and management of the business, ensuring their independence,

receive regular returns and peaceful life devoid of any litigation. Owners of the business may not want dilution in terms of control over the business and avoidance of risk of loss through insecurity of their limited resources. The data gathered through questionnaire has been summarized descriptively in tabular form and initial analysis done in percentages as shown in the following sections.

The chi-square test-statistic is given by:

$$X^2 = \sum_{i=1}^{r}\sum_{j=1}^{c}\frac{\left(f_{ij} - e_{ij}\right)^2}{e_{ij}},$$

Where

f_{ij} is the observed frequency for category in row i and column j

$e_{ij} = \frac{(R_i)(C_j)}{n}$ is the expected frequency for category in row i and column j.

It has a chi-square distribution, $\chi^2_{\alpha(df)}$,

Where the degrees of freedom are defined by $df = (r-1)(c-1)$. The decision rule: Reject H_o if $X^2 \geq \chi^2_{\alpha(df)}$; the two categorical data are related.

The results from the chi-square test are presented in the tables below.

The level of reward influencing choice of capital (Table 1) shows that 151 potential investors prefer equity capital and 76 prefer long-term debt capital. Potential investors of 107 (70.86%) out of the 151 persons who prefer share capital require reward determined by the market forces, the invincible hand. On the other hand, 61 (80.26%) potential investors out of 76 persons preferring long-term debt capital require reward determined by the market forces. In a situation where reward offered is at the discretion of managers 19 persons (12.58%) out of 151 potential accepted such condition and 9 persons (11.84%) out of 76 potential investors who prefer debt capital may take anything at the discretion of management. To accept anything for immediate needs 25 persons (16.56%) out of the 151 potential equity investors prefer to go for that and 6 persons (7.89) of the 76 potential bond investors opt for that. In analysing how the reward system may influence the choice of capital the P-values came up as 0.335 (33.5%) meaning the reward levels of investment are independent of choice of capital.

Table 1 – Expected level of investment rewards effect on choice of business capital

Response categories		Expected Level of rewards: Reward as determined by the market forces	Anything offered by my employers or investment	Anything that can meet immediate needs	Total	Test-Statistics	P-value
Business capital sources	Shares	107	19	25	151	4.563	0.335
	Bonds	61	9	6	76		
Total		168	28	31	227		

Potential investors require higher reward from their investment than market average (Table 2). 132 (84.62%) respondents out of 156 who prefer share capital wish they receive above market average returns and 68 (80.95%) out of 84 persons who prefer long-term debt capital, wish they receive reward higher than average market rate. In total 200 (83.33%) out of 240 potential investors prefer reward that is higher than market average. The P-value here is 0.29 (29%) meaning the dependency of choice of capital on higher reward above market average is independent.

Table 2 – Need of high rewards above market average influence on choice of business capital

		Would you prefer an investment that will give a higher reward than the market average?			T-statistics	P-value
Response categories		Yes	No	Total		
Business capital sources	Shares	132	24	156	0.527	0.29
	Bond	68	16	84		
Total		200	40	240		

Fluctuations or uncertainty of returns (Table 3) show mixed reaction and state of indifference. 68 (46.9%) potential equity investors accepts fluctuation and 77 (53.1%) do not accept fluctuations in returns. For long-term debt capital 45 (55.56%) of the potential investors accept uncertainty in their rewards and 36 (44.44%) do not accept such fluctuations. The overall responses show that the potential investors are divided with 113 (50%) saying yes and another 113 (50%) saying no. From the statistical analysis, the P-value is 0.134 (13.4%) the relationship between the choices of capital and reward fluctuation is independent

Table 3 – Risk of reward systems effect on choice of business capital

		Would you accept any form of fluctuations (uncertainty) of your reward?			T-statistics	P-value
Response categories		Yes	No	Total		
Business capital sources	Shares	68	77	145	1.56	0.134
	Bond	45	36	81		
Total		113	113	226		

For contractual obligation on the payment of returns (Table 4), 155 potential equity investors, 138 (89%) persons require contractual obligation for their return and 17 (11%) may not want contract. For 82 potential long-term debt investors, 66 (80.49%) persons want contractual relationship and 16 (19.51%) do not want contractual relation. In all 204 (86.08%) of potential investors prefer contractual relation for the payment of their returns. The statistical analysis gave P-values of 0.056 (5.6%). At 10% significant values, there is dependency and relationship between choice of capital and contractual obligation

Table 4 – Contractual right for reward payment effect on choice of business capital

		Would you take up an investment that gives you contractual right for payment of your reward on regular basis?			T-statistics	P-value
Response categories		Yes	No	Total		
Business capital sources	Shares	138	17	155	3.267	0.056
	Bond	66	16	82		
Total		204	33	237		

Investors may not have contractual right for the return and repayment of capital but to receive higher returns above market average (Table 5). 116 (80%) out of 145 potential equity investors will forgo higher return and go for contractual obligation on returns and repayment of capital. 29 (20%) prefer higher returns to contract to repay capital. For potential long-term debt investors of 84, 65 (77.38%) persons prefer contractual arrangement for repayment of capital to higher returns and 19 (22.62%) prefer higher return to contract for repayment of capital. The P-value of 0.379 (%) indicates independence of choice of capital and contractual repayment of capital.

Table 5 – No contractual right for repayment of principal effect on choice of business capital

		Would you take up an investment with no contractual right of return and repayment but higher return above market average?			T-statistics	P-value
Response categories		Yes	No	Total		
Business capital sources	Shares	29	116	145	0.22	0.379
	Bond	19	65	84		
Total		48	181	229		

According to Table 6, for potential equity investors of 148, 78 (52.70%) prefer their investment secured on assets of the firm to higher returns whereas 70 (47.30%) prefer higher returns to security over assets.

For potential bondholders of 80, 60 (75%) prefer security over assets to high reward and 20 (25%) prefer high reward. The P-value of 0.001 (0.01 %) clearly shows strong dependency and relationship between choice of capital and security over assets

Table 6 – Asset secured as guarantee for capital repayment influence on choice business capital

		Would you take up an investment with no contractual right of return and repayment but higher return above market average?			T-statistics	P-value
Response categories		Yes	No	Total		
Business capital sources	Shares	78	70	148	10.81	0.001
	Bond	60	20	80		
Total		138	90	228		

The correlation table (Table 7) shows 0.117 positive correlations between contractual obligation of reward and choice of capital. This means when there is contractual arrangement to pay reward investors are prepared to offer their funds to the business. On the other hand there is -0.218 negative correlations between security over assets and choice of capital. This means the higher the risk of insecurity the lower the funds or chance to obtain funds from the financial market. Returns and relationship with choice capital has positive correlation, implying the high the return the higher the chances of receiving capital from investors. The correlations here are weak and lack linearity; however, it is worthy to acknowledge the importance of indicators to make informed decisions about how to attract funds in accordance with investors' needs and satisfaction.

Table 7 – Correlation of contractual obligation and choice of capital

N.	Items	Pearson R Corr	Spearman Corr	P Values
1	Effects of expected level of reward on choice of capital	0.111	0.127	0.335
2	Effect of high reward above market average on choice of capital	0.047	0.047	0.29
3	Risk of reward systems on choice of capital			0.134
4	Effect of contractual obligation of reward on choice of capital	0.117	0.117	0.056
5	Effect of investment without contractual obligation for reward but higher and uncertain return on capital	-0.031	-0.031	0.379
6	Effect of security over assets on choice of capital	-0.218	-0.218	0.001
7	Effect of no security over assets on choice of capital	-0.127	-0.127	0.038

5. Findings

Potential investors require valuable consideration with high premium as reward. They prefer fixed returns and reward systems to compensate them for their risk. Even though the P-values shows an independence relationship with choice of capital there is the presumption that return to capital invested is fundamental and not negotiable. It gives credence to the fact that in an environment of information opaqueness investors require high premium (Vy Le, Thi Bich, 2017) Weak information and low level of investors' confidence in the investing environments persuade investors to demand higher yielding securities, an indication for preference for long-term debt/bond capital. In an emerging economy with more SMEs managers may be reluctant to pay dividend, therefore investors direct their attention to bonds.

Potential investors require contractual obligation and arrangement for payment of their return and repayment of capital invested. Investors require collateral security for making funds available to business. There is strong dependency between security over assets and choice of capital

Potential investors presume valuable consideration as reward with high premium

Responses from potential investors reveal that they require valuable consideration including premium in exchange for taking up that risk. This position is presumed to be not negotiable. "The entrepreneur is motivated by self-interest" (Slavin, 2002). Where there is unpredictable level of uncertainty of returns and repayment of capital investors tend to be risk averse and they may require more than average for their risk. Thornton and Ribeiro Soriano (2011), opined that the dimension for uncertainty avoidance represents preference for certainty. The P-value of 0.29 (29%) indicates the variable of reward with high premium influencing choice of capital is independent and there is little or no dependency between them. This implies the quest for risk premium is non-negotiable.

Weak information and low level of confidence in the investing environments provide basis for debt capital
Another observation made is the lack of information on businesses and their performance as well as low confidence of investors in the financial systems and markets. Investors may prefer equity but for information opaqueness, they trade off for debt to enjoy fixed and regular returns. In developing countries and even the developed ones most businesses are started by individuals, supported by family relatives and friends. Information flow in most cases is assumed and informal with heavy reliance on trust. A case in hand in Ghana is the withholding of license of two banks by the Bank of Ghana for their liquidity and solvency problems as announced in the Ghanaian print and electronic media on Monday 14th August 2017. This development puts shareholders at risk. To protect their interest in environment of opaque information investors prefer fixed and regular returns and repayment of capital.

Preference for debt capital with fixed returns and reward systems is high
This asymmetry leads to firms preferring internal funds over external funds; however, when internal funds are no longer available, debt is preferable to equity due to the riskiness of equity (Myers 1984). The capital structure decision between equity and debt is different for small firms than for large firms in part (Phooi M'ng, *et'al,* 2017) because small businesses are usually more informational opaque than large firms. In addition, since small businesses are usually owner-managed, the owner/managers often have strong incentives to issue external debt rather than external equity in order to keep ownership and control of their firms (Berger & Udell, 1998).

Potential investors require contractual obligation and arrangement for payment of their return and repayment of capital invested as fundamental
With low confidence in the market and information asymmetry investors require that their returns and repayment to be contractual. As seen above the requirement for valuable consideration with high premium as reward and repayment would be of no sense unless matched with agreement and contractual obligation

Investors require collateral security for making funds available to business.
Investors' requirement for valuable consideration and reward with premium against risk of uncertainty and fluctuations can be achieved when there is protection by securing their interest over the assets of the business. The P-value from the statistical analysis is given as 0.001 (0.01%) which demonstrates strong dependency between choice of capital and security on assets of the firm.

6. Discussions

The desire of the potential investors for valuable consideration as reward satisfies the theory of self-interest, which is the core of all economic analysis. No one is prepared to give out more than what he or she can afford. Value should exchange for value to allow the investor attain the highest possible ranking in his or her preference ordering (Eaton et al, 2005). The study is revealing the need for contractual relation for the receipt of returns and repayment of capital to reduce or avoid risk in an environment of high uncertainty and information opaqueness. This is much so when it comes to start-ups and family businesses. Investors can make informed investment and financial decisions dependent on available information.

The thought flow in and between stages of the processes of investment and financial decision is smoothened and facilitated by the right and relevant information filtering in at the

right amount, right value, right time and right place. In the absence of this, the market will dictate for specified terms and conditions for reward systems due potential investors and to be enshrined in contracts. The reward in itself is a right that cannot enforce itself but legal contracts sealed and as catalyst provide a medium to demand specific performance. The level and extent of contractual obligation and security available to the investor for any type of capital source will influence the choice to be made.

In start-ups and family and friends business where the parties are known and familiar to themselves, it is easy to assume that the information asymmetry would be minimal. In many cases, it appears that this is so; however, there is evidence to suggest that this is still a significant issue. The investment can quite often break friendships because of lack of information and openness (Hancock, 2009). It is dangerous to make money available to start up and close relation and small business with little or no contractual relation (Hancock, 2009).

Hancock (2009) observed that if a business starts up by accessing family or friends' finance, the signal to the market, rightly or wrongly, is that the business has no potential, there is going to be built in bias that these businesses are going to fail. Potential investors may then insist on collateral and covenants to secure their investments beyond what they can reasonably acquire as information. Start-up enterprises are able to provide little, if any, of these artefacts to alleviate the problem. One reason given by the bank of Ghana for closing down the UT and Capital Banks was the inability of the banks to comply the condition to improve their capitalization and to improve their balance sheet (Daily Graphic August 15, 2017). The inability of the banks to comply may stem from the fact that issuing new shares may not be taken up or may be priced down to the disadvantage of existing shareholders. The banks then may resort to adding more debt stock eventually weakening their balance sheet. When investors are satisfied with the security of regular returns and retrieval of their capital eventually, a business is assured of funds for its operations. Investors prefer the bird in the hand of cash dividend rather than the two in the bush of future capital gains (Al-Malkawi, Rafferty & Pillai 2010).

Dividend payment is seen as an important form of information to investors. Dividend policy provides means of gauging managers' view about how future performance might be. An increase in dividend payment tended to be reflected in stock prices (Al-Malkawi, Rafferty and Pillai, 2010). Dividend policy can provide a benchmark for investors to make informed decision, the absence of which creates anxiety for investors. For safety and security investors may opt for contractual and secured investment assets, that is, they trade of equity capital for debt capital.

7. Conclusion

The study investigated the effect of contractual obligation of claims on choice of capital in emerging economies as part of a study of developing the bond market for entrepreneurship growth. There is advocacy to encourage entrepreneurship to ease unemployment but for want of finance in environment of information opaqueness where flow of funds from equity for investment is not attractive and debt may be preferred (Vy Le, Thi Bich, 2017)). Reliance on debt also faces the challenge of capital structure theory of financial distress. The study sought the relationship between reward system, risk return compensation and security on assets as dependent variables, and choice of capital, equity and debt, as the independent variables. It is to advocate a source to be tapped to support entrepreneurship. It came out that investors require valuable consideration as returns with high premium. These does not influence choice of capital but fundamentally not negotiable. However, the study reveals significant dependency between collateral obligation and quest for security over assets (collateral) and the choice of capital.

By implication investors want their return on investment and repayment of principal to be protected in legal contracts and secured on assets of the firm. Potential investors prefer debt or bond capital. This preference supports the fact that the business environment in most emerging economies is weak in information flow, suggesting information opaqueness. This cannot help investors to make informed decision in their investment drive. In such situations quest for debt capital and security over assets is prominent notwithstanding the capital structure theory. Myers and Majluf (1984) drew attention to the use of debt to avoid the inefficiencies in a firm's investment decisions that would otherwise result from information asymmetries. History of corporate dividend in Holland and Great Britain, saw captains of sailing ships, issued financial claims to investors, which entitled them to share in the proceeds, if any, of the voyages. At the end of the voyage, the profits and the capital were distributed to investors liquidating and ending the ventures life (Al-Malkawi, Rafferty and Pillai, 2010). The security at the early stages of the development of shareholding was trust due to close relation between the parties. The time span and life cycle of the business venture was determinable with certainty to facilitate liquidation and valuation of interest and stakes of the parties. Today with large public limited liability companies, investors require relevant information backed by law to make informed decision. In the absence of which, equity will be traded-off for debt capital with predetermined rate of return, repayment of principal embodied in contract and possibly backed by secured assets. Developing the bond market is a possible means to raise funds for entrepreneurship for growth.

7.1. Recommendations and suggestions for further research

Implication from the study is that capital structure is a response to corporate behaviour in investment decision and not as predetermined by management. In effect funding entrepreneurship and SMEs through equity, as postulated by theory is not attractive and feasible without contractual obligation. Further research is suggested into this observation.

Environments of information opaqueness support the use of debt capital. Governments in emerging economies, supported by the players in the financial system, should have the capacity to develop the bond market for growth.

The Stock Exchange should be proactive in developing the bond market as a securitized financial asset to be traded and facilitate the liquidation of such instrument to attract investors' confidence.

Corporate firms and their agents should ensure good corporate governance to motivate potential investors. Managers' rewards and allowances outside their salaries should be appropriation of surplus and not a charge in the performance statement to encourage management to efficiently use debt capital.

There should be legislation in emerging economies to strengthen provision of strategic investment information; corporate financial and cultural practices and corporate governance to facilitate investment decision for general economic growth.

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