

# Impact of Access to Finance on Small Medium Enterprises ( SMES ) Growth

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**Abstract** – Small and medium enterprises (SMEs) are the main pillar in the development of the country.

In this article we will examine the key factors in the success of small businesses in Lahore, Pakistan. Target Population was SMEs working from service to manufacturing. Sample size of this study was 201. Responses were collected through questionnaire and SPSS software is used for this research. SMEs are the central figure for job creation, reducing poverty and growth of the country.

**Keywords** – SMEs, Sources of Finance, Innovation, Staff Training.

## I. INTRODUCTION

SMEs play an important role in Lahore, Pakistan. These are those enterprises that employ no more than 250 employees and work on a small scale. The technical definition varies from country to country but it is usually based on employment, assets or a combination of the two (SBP). These are the important source of job creation and economic growth. Developing countries have started to focus on the crucial role that SMEs can play on their development (Maad, 2008).

This article explains the relationship between business success and its determinants, Access to finance, staff training and innovation. But there is always a research gap for further improvement that can only be filled by the researchers. Small and Medium Enterprises Development Authority (SMED) was established in October 1998 to help SMEs to overcome the problems. The following table shows the province wise distribution of SMEs in Pakistan.

TABLE. 1 Province wise distribution of SMEs

NAME OF AREA	SME UNIT
Pakistan	6.96 million
Punjab	65.26%
Sindh	17.82%
NWFP	14.21%
Balochistan	2.71%

(The Economic Survey of Pakistan Report 2009)

The purpose of this study is to investigate the relationship between business success and its determinants, access to finance, staff training and innovation.

## II. LITERATURE REVIEW

Lack of access to finance is a main problem for SMEs. Financial market is not well developed in Pakistan. Businessmen have lack of awareness and rely on personal saving or borrow from family, friends or relatives. There are many problems and difficulties faced by small firms running in developing countries specially in Pakistan.

These include high cost of interest rate, insufficient financing, limited bank guarantee, high bank fees and charges.

Research findings by McCormick *et al* (1996), Daniel *et al* (2003) Kinyanjvi (2006) show how SMEs are constrained by finance. Only 13% of Pakistani adults have a formal account, according to Global Findex 2014. In Pakistan, Micro, Small and Medium Enterprises (MSME) receive only 7% of total bank credit to the private sector. There are 3.2 million SME but only approximately 188,000 SME loans outstanding on bank books.

In many developing countries like Pakistan, banks prefer to lend government which offer less risk and high returns. PSBR is the amount of borrowing that government borrows to cover its budget deficit creates crowding out effect in the economy and reduces private sector investment from financial market. Lack of access to long-term finance for small firms forces them to depend on expensive short-term finance.

## III. CONCEPTUAL FRAMEWORK

This article addresses the connection between innovation and firm's financing, a problem on which Schumpeter (1942) commented more extensively than is usually reflected in contemporary Neo-Schumpeterian research (O'Sullivan, 2000).

## IV. RESEARCH QUESTIONS

Our Objective is to investigate the following questions:

1. What is the performance of SMEs?
2. What are the problems faced by SMEs?
3. Which firms seek finance and which ones obtain it?

Innovation projects could lead to difficulties in obtaining finance. The investment for innovative firms is highly risky. Because their success or failure is seen over time gradually. For the potential value of a new idea to be realized in the marketplace, where Schumpeter placed innovations as opposed to inventions, firm will still need to invest a substantial amount of resources to finance periods of experimental development of techniques and to align complementary assets (Teece, 1992). Some of these complementary assets can be accessed by collaborating with other organizations (Pisano, 1991; Powel *et al.*, 1996; Aliuja, 2000; Baldwin and Von Hippel, 2010) and through the acquisition of new technology in the form of equipment or intermediate inputs (Stoneman, 2001).

Staff training is necessary for the success of SMEs. Training is often needed to improve the efficiency of workforce and to introduce a new process. Training covers many needs. Some may be short-term, such as one day courses. Others may last a few days and some may be long-

term where a programme of staff training is involved. Training is usually trying to increase skills, knowledge and change worker's attitude.

There are three main types of training such as induction training, on-the-job training and off-the-job training. Induction training is an introduction given to a new employee, explaining the firm's activities, customs and procedures and introducing them to their fellow workers. On-the-job training occurs by watching a more experienced worker doing the job. Off-the-job training involves being trained away from the workplace, usually by specialist trainers. One reason commonly given by firms for not training their staff is that these well trained staff will then be poached by other firms. Perhaps they ought to focus on motivating their staff to stay.

Roughly 2 billion people in the world live on 2 dollar a day or less. Of these 50% are estimated to be small businessmen. Staff training led to significant improvements in business success, when compared with those who received no training in terms of employment, market share and profitability.

### V. METHODOLOGY

Sample of 201 was selected from target population through questionnaire. SPSS software is used for this research.

#### Reliability Analysis

Table 1 Reliability of measurement

Constructs	Valid N	Number of items	Cronbach's alpha
AF	200	10	0.734
IN	200	13	0.705
ST	200	10	0.723
BS	200	7	0.707

Table 1 represents the estimated values of Cronbach's alpha to examine the reliability & internal consistency of the measures. For the present sample, values of cronbach's alpha vary from 0.705 to 0.734 which indicates that each multi-item construct possess high reliability and they are internally consistent. Further items of each construct measure the same content universally.

Table 2. KMO & BARTLETT's TEST

Constructs	No. of items	KMO measure of sample adequacy	Bartlett's test of sphericity chi-square	Bartlett's test of sphericity sig.
AF	10	0.722	447.935	0.000
IN	13	0.664	1373.763	0.000
ST	10	0.750	629.578	0.000
BS	7	0.703	418.963	0.000

Table 2 shows that KMO values for each construct is well above the recommended acceptable level of 0.6. This shows that it is worth conducting a factor analysis in case of present data. Table 2 reflects that p-value of Bartlett's test in the case of all the constructs is less than 0.001 which

provides evidence against Ho, so we can continue with factor analysis.

Table 3 Eigenvalues & Total variance Explained

Construct	Components	Total	Eigen values % of variance	Eigen values commutative %
AF	1	3.149	31.489	31.489
IN	1	3.560	27.384	27.384
ST	1	3.503	35.027	35.027
BS	1	2.863	40.903	40.903

Table 3 contains all eigenvalues and also shows total variance explained for the constructs.

Table 4. COMPONENT MATRIX

ITEMS	COMPONENT
<b>AF</b>	
AF1	0.672
AF2	0.538
AF3	0.630
AF4	0.669
AF5	0.219
AF6	0.715
AF7	0.486
AF8	0.491
AF9	0.675
AF10	0.265
<b>IN</b>	
IN1	0.902
IN2	0.529
IN3	0.712
IN4	0.504
IN5	0.553
IN6	0.796
IN7	0.575
IN8	0.616
IN9	0.791
IN10	0.823
IN11	0.723
IN12	0.673
IN13	0.830
<b>ST</b>	
ST1	0.869
ST2	0.578
ST3	0.616
ST4	0.618
ST5	0.567
ST6	0.794
ST7	0.542
ST8	0.372
ST9	0.778
ST10	0.823
<b>BS</b>	
BS1	0.780
BS2	0.825
BS3	0.743
BS4	0.907
BS5	0.882
BS6	0.318
BS7	0.763

Table 4 shows all related items are loaded ranging from 0.823, 0.902, 0.791 to 0.542 respectively. The above results satisfy the criteria of construct validity. This means that the collected data, which is obtained from the instrument, are valid.

## **VI. CONCLUSION**

The result of our study is that business success does not mean improving access to finance. Innovations and staff training can also play a main role in helping business up and grow. Staff training and innovation with proper access to finance are the proper way for achieving success in business and it should be focused for greater effect in business.

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Is a high school student in his senior year at the International School of Choueifat in Lahore, Punjab, Pakistan. He will graduate from High School in June 2018. He is interested to pursue economics in his undergraduate degree.