

Factors affecting to neglect formal financing sources by the SMEs; with special reference to Badulla district

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Introduction

In terms of need for finance, the International Finance Corporation IFC defines an SME as ‘Small Enterprises’ with loan size of \$10,000 to \$100,000 and ‘Medium Enterprise’ with loan sizes of \$100,000 to \$1 million (UNEP, 2007). According to the Central Bank of Sri Lanka (1998), the cottage and Small Scale Industries (CSSI) sector plays an important role in economic development through creation of employment opportunities, the mobilization of domestic savings, poverty alleviation, income distribution, regional development, training of workers and entrepreneurs, creating an economic environment in which large firms flourish and contribute to export earnings. According to Kihimbo et al.,(2012), SMEs financing constraints are attributed by high transaction costs, high collateral requirements and lack of guarantee credit instruments, deficiencies in legal systems, regulatory and policy problems and asymmetric information. In order to operate efficiently, SMEs require easy access to short and long term capital. In general terms, it appears that lending to SMEs is seen as a high risk business since most of these enterprises lack collateral. Since, that is a major obstacle faced by SMEs, may be badly affected on the country’s economy as well. In accordance with Wahab and Hassan (2012), despite the importance of (SMEs) in the national economy in general, they face many obstacles that hinder their development; one of which is evident in the aspect of financial access. The primary objective is to identify the relationship of the formal financing dimensions that influence to the SME owners’ formal financing decision. Secondary objectives are to determine the impact of the formal financing dimensions on formal financing decision of SME owners and to determine the most and least important formal financing dimension factor that influence to the SME owners’ formal financing decision.

Methodology

All the SME owners in Badulla district were considered as the population of the study who are registered in Badulla District under the Chamber of Commerce and Industry of Uva Province. Therefore, the sample of 60 SME owners is selected from metropolitan and rural areas, who are doing their businesses in Badulla district. The sample has been selected using stratified sampling method. Data was collected by using a structured questionnaire. In addition, Cronbach Alpha reliability test was employed to assess the validity of the questionnaire and 0.822 of Cronbach’s alpha value indicated that the internal reliability and validity of questionnaire was acceptable since that these levels are exceeding the general acceptable level. Hence, it was suitable for the further processing. Data were analyzed using descriptive statistics, correlation analysis and multiple linear regressions.

Results and Discussion

Relevant descriptive statistics of the dimensions of main three variables namely, Characteristics of the microenterprise owner (CO), Characteristics of the microenterprise (CM) and Microenterprise dynamics (MD) can be summarized under table 1.

Table: 01. - Descriptive Statistic Relating to Independent Variable

Dimensions	Mean	Std. Deviation	N
CO	3.4875	0.68027	60
CM	3.5375	0.77818	60
MD	3.5417	0.66569	60

The Researcher has utilized the following measures for interpretations.

$1 \leq x < 2.5$ = Almost disagree

$2.5 \leq x \leq 3.5$ = Moderate

$3.5 < x \leq 5$ = Almost agree

Among these mean values, CO mean value is fallen in to moderate category and other two dimensions were fallen in to the category of almost agree. Accordingly, Microenterprise dynamics have the highest mean value (3.5417). It means, Small and Medium Enterprise owners almost agree with the pressure made on formal financial decisions by the firm dynamics. The mean value indicated that the best influence dimension factor to the SME owners' formal financial decisions when compare with other dimension factors.

Table: 02. - Correlation Analysis

Independent Variable	Pearson Correlation	P-value
CO	0.472	0.000
CM	0.805	0.000
MD	0.839	0.000

According to the table 02, it can be identified that correlation coefficient of CO and SME owners' formal financing decision was 0.472 and P- value was 0.000. Although, there is a relationship between the factors, it can be identified CO was the least influencing factor when SME holders making formal financial decisions. Moreover, it can be recognized that MD has the highest value (0.839) of Pearson correlation when compared with other formal financing dimensions. Therefore, Firm dynamics is the most important formal financing dimension factor that influence to the SME owners' formal financing decision. As shown in the table correlation coefficient of CM and SME owners' formal financing decision was 0.805 and there is high positive relationship between above two variables. Since, MD and CM are the most influencing factors on SME owners' formal financial decisions than CO.

Since, CO was not a significant factor (significant value 0.965) in the previously constructed regression model, it was constructed the regression again without CO as shown in the table 3.

Table03: New Output of Multiple Linear Regression Analysis

Model	β	Std. Error	T - Value	Sig.
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Constant	0.814	0.203	3.015	0.000
CM	0.294	0.074	3.958	0.000
MD	0.470	0.087	5.421	0.000

The regression analysis which included all three dimensions indicated that Microenterprise dynamics (MD) as the most affected formal financial dimension to the SME owners in Badulla district. According to the newly constructed regression model, coefficient of determination or R square value was 0.768. Therefore, 76.8% explain the dependent variable by using the independent variables. Since, it can be identified that there was 23.2% unexplained variation. When constructing the Anova table P. value was (0.000) and identify overall model is significant. Therefore, the model has a significant relationship with Formal financial decisions of SME owners.

Conclusions

The primary objective of this study was to identify the relationship of the formal financing dimensions that influence to the SME owners' formal financing decision. Secondary objectives were to determine the impact of the formal financing dimensions on formal financing decision of SME owners and to determine the most and least important formal financing dimension factor that influence to the SME owners' formal financing decision. According to empirical results of the analysis, the characteristics of the micro enterprise and microenterprise dynamics are highly affected on SME owners' formal financial decisions than characteristics of the microenterprise owner.

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