



THE PROFILING OF AWARENESS OF ACCESS AND USE OF FINANCE: A CASE STUDY OF SMEs IN KARACHI



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ABSTRACT

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This article focuses on factors that affect access to finance by small-to-medium enterprises (SMEs) in Pakistan and the factors that affect their performance. The study also analysed the association between the characteristics of SME owners, owners' needs for finance and the difficulties they face in accessing finance from Pakistani banks, and how that difficulty affects their performance. The study also identified the business environments in which SMEs operate in Pakistan. 150 SMEs from Pakistan were selected and questionnaires used to collect data. The study examines how SME owners' characteristics - education, training, and experience - influence their enterprises' performance. Firms' attributes such as business size, business ownership type, and the availability of a business plan were also examined, as well as the difficulties experienced by SMEs in obtaining finance, and the overall demand for finance by Pakistani SMEs. It was found that the primary causes of failure to obtain finance were the absence of insurance, poor budgetary management, unfeasible strategies, deficient data, and high loan fees. The findings also show that interior and exterior influences including the accessibility of capital, consumer loyalty and promotion of the SME were significant factors affecting performance.

Contribution/ Originality: The paper's primary contribution is to identify those factors that affect access to finance by SMEs in Pakistan, and those that affect their performance. It is hoped that the findings of this study will contribute positively to the formulation of policies designed to improve SME performance.

1. INTRODUCTION

1.1. Background of the study

Today's SMEs are considered to be the backbone of a developing economy. In comparison to other countries, the contribution of Pakistani SMEs to its GDP is smaller, although it should not be understated. Still, growth of the SME sector is threatened by several issues, particularly a widespread inability to obtain finance from lending institutions.

There is no single, standard definition of an SME. The SMEDA, the Pakistan Bureau of Statistics (PBS), the SME Bank and the State Bank of Pakistan (SBP) have all posited varying descriptive criteria as to what constitutes an SME. The Securities and Exchange Commission of Pakistan (SECP) attempted to categorise large, medium and small firms based on the number of employees and the value of their capital. Categorisation based on capital is the

method used by the SME bank, whereas the PBS bases its definition on the number of employees. SBP only takes into account the nature of the business and number of employees. The definition of an SME also differs from state to state, contingent upon the number of workers, business turnover, capital invested, development rate, innovation and business type (Watson, 2010). In the last decade, scholars have introduced two different principles - quantitative and qualitative - to classify an SME. The quantitative principle depends on the number of employees, investment of capital, and volume of production, and sales. The qualitative principle depends on the structure of the business, its management, and annual growth.

SMEs enhance the growth of the economy, reduce unemployment and scarcity, and promote international trade. Aremu and Adeyemi (2011); Kayanula and Quartey (2000); Muhammad *et al.* (2010); Subhan *et al.* (2013) concluded that SMEs play an important role in terms of investment, human resource development, inflation control, and economic growth. Foreman-Peck *et al.* (2006); Smallbone *et al.* (2001) argued that developed countries are more focused on fostering an environment for the growth and development of SMEs.

Table-1. Growth of the SME Sector.

| | Large Scale | | Small Scale | |
|-------|--------------------|---------------------------|--------------------|---------------------------|
| | Output Growth Rate | Capital Formation Growth% | Output Growth Rate | Capital Formation Growth% |
| 1970s | 4.84 | -2.28 | 4.4 | 5.5 |
| 1980s | 8.16 | 8.15 | 4.7 | 10.5 |
| 1990s | 3.6 | -5.02 | 2.6 | 7.2 |

Source: Small and Medium Enterprises Development Authority – SMEDA (May 10, 2005).

SMEs have significant potential to grow the economy, and the performance of the sector of Pakistan for the last few years has been good. 90 percent of all businesses are SMEs, accounting for 80 percent employment of non-farm labour and 40 percent of annual GDP. However, in comparison to large enterprises, SMEs face more obstacles in terms of finance and other resources. SMEs often need support in various elements of business, such as for example, specialised upgrades, advertising, investment in capital and personnel, due diligence and expansion. Despite these issues, the government of Pakistan is still neglecting the sector.

1.2. Problem statement

Given the central role of SMEs in creating wealth, their continuing inability to access investment finance is inhibiting Pakistan's overall economic growth. Pakistani banks are risk averse (Coleman, 1998; Lund and Wright, 1999). Consequently, their interest rates when lending to SMEs are very high.

Issues internal to SMEs that have hitherto limited their development in Pakistan include labor inexperience, poor management skills, age, gender, and low returns on capital investment (Kihlstrom and Laffont, 1979). External obstacles include the availability of trained employees, competitors, labour costs, marketing, customer satisfaction and sales (Meza and Webb, 1987; Tudose, 2012; Jahanzeb *et al.*, 2014). Environmental factors are a lack of governmental support, corruption, bureaucracy, legal issues, advisory facilities, and business regulation particularly in relation to labour (Meza and Webb, 1987; Sibilkov, 2009; Tudose, 2012; Butt *et al.*, 2013).

1.3. Gap analysis

Very few studies have attempted to address the core issues in the relationship between the SMEs and financial institutions. This study is based on an investigation of those core issues, including business and managerial characteristics and performance, and the difficulties in obtaining access to finance.

1.4. Research objectives and significance

The primary objective of this study is to identify the sources of finance available to SMEs in Pakistan and the obstacles in accessing them. This study covers the technological, managerial and financial disputes of SMEs in Pakistan. The paper also recommends new policies and their implications.

The literature has shown that there are many reasons for the lack of financial access in developing countries for SMEs. This study examines the limited obstacles in seeking finance of Pakistani SMEs. This study also examines the effect of such obstacles while seeking finance, the factors affecting these obstacles and the SMEs' performance in the business environment. Such data will provide proof of the basic factors and shed light on how any difficulties can be tended to and where there is a requirement for development. This study will uncover the elective wellsprings of money accessible to SMEs in Pakistan at each distinctive phase of the SME life cycle, including inward and outside sources, and determine the ideal capital structure.

The study contributes to research by considering the feasible and reasonable types of money accessible to SMEs in Pakistan. The study's outcomes will inform Pakistani business people of how they can best attempt to improve their chances of verifying their businesses and getting bank credits to help develop their businesses further. The study additionally offers some valuable recommendations that SMEs could embrace to improve their probabilities of obtaining funds from banks..

1.5. Research questions

This study is being carried out with the following research questions:

RQ1: To enlighten the association between business characteristics and access to finance.

RQ2: To explore the relationship between manager characteristics and access to finance.

RQ3: To determine the obstacles faced by SMEs in Pakistan while seeking finance from banks.

RQ4: To explore the internal and external sources of finance for SMEs.

RQ5: To ascertain the association between access to finance and financial performance of SMEs.

RQ6: To ascertain the relationship between access to finance and business environment of SMEs.

1.6. Outline of the study

This study contains five sections. The first section provides a general introduction about the SME sector and its growth and importance in an economy. It includes an overview of the historical background and identifies the problem of the study and objectives, scope and significance of the study and the research questions. A review of the literature is carried out in the second section. It contains an overview of SMEs in Pakistan, the operational definition of SMEs, obstacles faced by SMEs in Pakistan and the measurement of business performance. It also defines the theoretical and conceptual framework of the study. The third section incorporates the research methodology of the study. The fourth section gives the itemized results of the investigation. The fifth section gives a summary of the general investigation, and discusses the results in context and provides theoretical and practical suggestions, constraints, and recommendations.

2. LITERATURE REVIEW

The issue of unavailability of credit for SMEs can be taken a gander at from two fronts: the banks and the SMEs supervisors. Entrance to bank credit by SMEs has been an issue raised several times by various examinations as a noteworthy requirement to modern development. A typical justification for the supposed absence of access to bank advance by SMEs is their failure to promise a satisfactory guarantee. In their view, the present arrangement of land proprietorship and exchange guidelines plainly hinders and to some limits access to formal credit.

Researchers upheld the perspective that from the viewpoint of the private sector, issues identified with account command all other requirements to the extension. They asserted that the accessible security assumes a huge job on

the part of banks to fulfill the needs of the private sector. The guarantee provides a motivating force to reimburse and balance misfortunes in the event of default. Banks can offer an option in contrast to the property as security, for example, underwriters, deals contract and liens on hardware financed. SMEs face a bigger number of difficulties in working together than vast undertakings as a result of the troubles in financing start-up and development. Small firms will in general experience a larger number of troubles than medium-sized firms, which likewise experience a bigger number of challenges than large firms. In many nations, particularly creating countries, loaning to private companies and business visionaries stay constrained on the grounds that monetary mediators are fearful about providing credit to organizations because of their high risk, little portfolios, and high exchange cost.

The inability of the SMEs to access finance is affected by the cost of a transaction. They are of the opinion that “if [the] transaction cost of lending is high the net margin banks expect from loan operation[s] do not compare favorably against safe investment represented by treasury bonds” (p 30).

A similar view is that if a moneylender faces data asymmetry, the issue regularly turns out to be a fairly powerful expert that the moneylender uses in guaranteeing reimbursement. These push up the exchange cost as the likelihood of default is thought to be high and must be contained. Therefore loan specialists may abstain from loaning to littler or lesser known customers or force exacting insurance prerequisites when they do. They may see customers in manners that would defeat the last claim impression of the trouble in acquiring formal fund.

2.1. Financing gap

Mazanai and Fatoki (2012) defined the financial gap as the difference between the funds demanded by SMEs and the funds supplied to SMEs. There are many reasons for why a financial gap occurs. One of the reasons behind a financing gap can be found in their peculiar characteristics, while some argue that a high level of market imperfection on supply side creates a financing gap for SMEs (Park *et al.*, 2008). Park *et al.* (2008) also stated that SMEs are suffering from financing gaps due to the multiple reasons on the supply sides and the demand sides. The supply side refers to suppliers of the funding (budgetary organizations and speculators), while the demand side is made out of SMEs who require financing from financial establishments and different suppliers of account.

Currently, the capital market is facing severe financial gaps for SMEs. SMEs of several developed and developing countries have issues in financing through capital markets (Park *et al.*, 2008). Park *et al.* (2008) also state that both the Organization for Economic Co-operation and Development and non OECD countries face ample financial gaps of 80% and 90% respectively. Except for debt in OECD countries, the division of debt and equity also illustrates the financial gap. Financial gap has been indicated by many researchers but very few of them have attempted to fill out this financial gap. The credit rationing theory investigated by many researchers has concentrated on the financing gap.

Two of the most significant reasons for the financing gap is the market imperfection on the supply side and the characteristics of an SME's owner. Park *et al.* (2008) further stated that the lack of perfection from financial providers in the capital market and the structural characteristics of SMEs are the main reason for the financial gap. Similarly, Holmes *et al.* (1994) argued that insufficient financial information and a lack of collateral creates a financing gap for SMEs. Mazanai and Fatoki (2012) stated that due to these factors bank charge a high-interest rate. Alfò and Trovato (2006) described that banks only consider credit rationing rather than credit demand therefore, there are a number of borrowers who remain unsuccessful in accessing loans in spite of the fact that they are willing and can afford to pay high interest rates. Credit rationing is the reason for the financing gap and financial institutions claim that the provided data is not adequate which can lead to credit rationing.

2.2. Access to finance

Demirgüç-Kunt *et al.* (2008) defined access to finance as the use of loans, credit and other facilities without any obstacles. There are two types of financial users: one who use banks' financial services and others who do not use

banks' financial services that they do not want or need to use because of religious and cultural reasons. Some non-bankers are those who desire to use financial sources but do not have access to the bank due to the service cost, low income, unnecessary terms and conditions to open an account, high fees and inadequate information. Such non-users close their businesses and exit from the industry (Demirgüç-Kunt *et al.*, 2008).

In 2008 Demirgüç-Kunt *et al.* stated that the problem of access to finance arises when an entrepreneur does not have sufficient internal resources to carry on their businesses and also does not have access or sufficient information about external financial resources due to the gap between the actual and desired rate of return. This highlighted gap occurs when banks decline to fund SMEs (Dembe and Boden, 2000; Demirgüç-Kunt *et al.*, 2008). Chittenden *et al.* (1996) argued that due to insufficient data it is very difficult to measure access to finance. SMEs encounter obstacles in accessing finance because they are not able to capture the financial market for borrowing. Bukvic and Bartlett (2003) and Coleman (2004) proved that a SME faces an obstacle in accessing finance due to the high collateral requirements of collateral, high capital cost and the rigid approach of banks. Levy (1993); Holmes *et al.* (1994); and Pissarides (1999) all identified that the SME sector finds difficulty in accessing finance due to high-interest rates and administration costs. Similarly, Oniovosa (2013) further defined that this badly affects SME growth and financial performance. Kariuki (1995) stated that high time consumption is the main issue for SMEs in accessing finance.

2.3. Characteristics of the owner

Cooper (1998) & Crook (1997) stated that the owners' characteristics are the most significant factor that influences investors to invest in firms. There are three main manager/owner characteristics that easily access finance. Experience is the most important factor when a financial provider makes a decision to finance the firm. They further argued that the more experienced SME owners are the more fund providers will be assured in investing in their firm due to their extra knowledge and skills. Kvale (1996) stated that a lack of experience creates a higher risk for SMEs. Storey (1994) stated that entrepreneurial characteristics such as experience, education, training and management skills all have a positive impact on the growth of a business. Petts *et al.* (1998) stated that all these characteristics have a positive effect on manager performance and the growth of the business. A manager who has more education has more ability to manage the business and controlling risk.

2.4. Business characteristics

Bhaird and Lucey (2006) studied firms' characteristics that maximize equity and debt and then urge investors to finance in these firms. There are three main business characteristics that allow easy access to finance. Berger and Udell (1998) argued that there is a positive association between access to finance and financial leverage. Access to finance depends on business plan, size, profit and type. Many studies proved that the firm's size determines its capacity to retain the firm. SME owners must have adequate information related to their business size to access finance. IFC (2012) and Kushnir (2010) stated that the main reason behind financial providers' reluctance is the size of business. However, Al-Kharusi (2003) in Oman failed to determine the relationship between small-sized businesses and the demand for finance. Mason and Harrison (1996) found a positive relationship between business plans and access to finance. Pinson (2004) defined the business plan as a written document consisting of the business goal, the nature of business and its strategies.

All investors and banks consider a business plan as the main document to determine the growth of business. Binks and Ennew (1997); Merritt (1998); Barlow and Robson (1999) state that SMEs' capacity to access finance can be affected by its legal structure. Deakins and Freel (2003) illustrated that large and incorporated firms are more efficient in getting access to financial institutions compared to small and unincorporated firms. Unincorporated firms, therefore, face more difficulties in accessing funds due to the lower preference. In a nutshell, the high risk, lack of collateral and small size of SMEs directly affects their access to finance (Freedman and Godwin, 1992).

2.5. Availability of financial resources

With the development of SMEs, the lack of sufficient financial resources emphasizes various obstacles. The development of SMEs is constantly impacted by the inadequate availability of financial resources. Similarly, the importance of SMEs in the Pakistani economy cannot be neglected but this sector also faces various obstacles during its development and growth. This study investigates issues in the short and medium term affecting SMEs until 2011. This will help to formulate future SME development policy.

2.6. Obstacles faced by SME

Obstacles faced by SMEs can be classified into two groups i.e. obstacles faced by the business environment and obstacles faced by banks.

2.6.1. Obstacles faced by business environment

Obstacles faced by the business environment are further classified into two classes i.e. internal and external obstacles (Kihlstrom and Laffont, 1979; Luigi and Sorin, 2009; Tudose, 2012). The internal obstacles of SMEs include capital, age, managerial skills, experience and gender (Meza and Webb, 1987; Tudose, 2012; Jahanzeb *et al.*, 2014). External obstacles may include labor cost, competitors, customer satisfaction, sales, training, marketing and skilled employee (Meza and Webb, 1987; Sibilkov, 2009; Tudose, 2012; Butt *et al.*, 2013). Environmental factors such as corruption, government regulations, legal issues, government bureaucracy, advisory services, and government support.

2.6.2. Obstacles faced by banks

Another group of obstacles are those faced by banks. Banks usually impose financial terms and conditions on SME' owners regarding high business risk, limited collateral, inadequate data and poor business plans. Banks therefore only finance potential and valuable SMEs.

Beck and Demircug-Kunt (2006) stated that the SME sector faces the biggest hurdle in accessing loans from banks. Financial institutions and banks are more averse in financing SMEs due to risky investments, inappropriate business plans and a lack of proper data. Leeds in 2003 defined that the availability of finance makes SME more flexible and easier to grow and enhance their productivity. Bukvic and Bartlett (2003) surveyed 200 SMEs and found that financing is the biggest challenge for SMEs due to three main factors i.e.: high collateral requirements, interest rates and service fees. Pissarides (1999) and Ahmed (2004) included some other factors i.e.: venture capital, finance cost, poor relationship with financial institutions and restricted equity. The difference between the supply and demand for funds by SMEs is termed as the financial gap. Park *et al.* (2008) stated that the main purpose of the financial gap are market imperfections on the supply side and owner characteristics.

2.7. Business performance

Measuring business performance is the basic tool for growth continuity and identification of strength and weakness of firms. Different researchers introduced different models for measuring business performance and all these models vary from each other based on the research question (Boyatzis, 1998). The ability to satisfy the demands of stakeholders is termed as business performance Smith and Reece (1999). Gaskill *et al.* (1993) stated that for the growth of the economy there is a need to study the factors that affect SME performance to increase the influence and development of SME performance in the economy. It has been noticed that the SME sector creates a significant impact on the economy of the country but due to internal and external obstacles faced by the SME sector the performance of SMEs is diminished to a great extent. Flahvin (1985) argued in his research that 70% of the SME firms end up closing down within their first two years. Fouad (2013) investigated the factors that influence the performance of SME and management skills in Egypt to identify the obstacles faced by Egyptian SMEs. These

factors were human resources, financial, general, marketing and production management. He found that Egyptian SMEs are facing a lack of skilled human resources and managerial skills. This directly impacts on their performance. He further illustrated that the SME sector is also facing a lack of financial resources.

Lussier (1995) also conducted research in Australia of 160 SME owners in order to identify the factors influencing the performance of SMEs. He concluded that a lack of financial resources was among the top fifteen factors. The fifteen factors were experience, education, staffing, industry experience, product/service timing, professional advisor, planning, financial control, parents, management experience, age, economic timings, partners and marketing. Similarly, Kihlstrom and Laffont (1979); Lean and Tucker (2001); Luigi and Sorin (2009) and Tudose (2012) highlighted the factors that affect business performance such as age, management skills, work experience, gender, and capital.

2.8. Financing decisions in SME

It is obvious that any SME must require finance at various levels of its business life cycle from its start through its growth. There are two main sources of financing i.e.; debt and equity. Any sized firm needs finance at any point in its life cycle. Equity financing includes internal sources such as family and friends, own savings and retained earnings; and external sources such as venture capital, 'angel finance' and public offers (English, 2003; Holmes *et al.*, 2003). The most significant way of financing for new businesses is own savings and financing from relatives/friends. This source of financing involves low risk (Levy, 1993; Liaw, 1999). Profitable firms use retained earnings as the most frequent funding source to meet their financial needs.

Generally, SMEs rely on internal financing rather than external financing. Baldwin *et al.* (2002) stated that over half of firms depend on internal sources of finance. Out of this 39 % consume retained earnings and 12% depend on owners' and managers' funds. The remaining firms were financed through banks and other financial institutions. Angel investors are those investors that are willing to invest in the growth of the business by offering capital to profitable and potential enterprises, through loans or an ownership share (Prowse, 1998). Kaplan and Strömberg (2002) found that funds provided to promising business ventures that have high return growth are termed as venture capital or VC. In fact, for developing and developed countries, VC is considered as one of the most significant sources of external funding. These financiers provide both cash and management experience.

Debt financing is known as the borrowed amount that can be repaid in a certain period of time with an amount of interest. This source of finance requires loan conditions or bonds not equity finance, Debt financing includes banks, GSCIs and private funds. Based on the ownership, the major difference between equity financing and debt financing is that, debt financing does not hold ownership in the business, while on the other hand equity finance holds ownership by distributing among stockholders (English, 2003). The most important and vital source of financing is bank loans. SMEs usually prefer banks for financing (Keasy and Watson, 1993; Black and Gilson, 1998). Banks provide long term and short term loans to SMEs. Banks offer short-term loans include overdraft, trade credit, credit cards and account receivable financing (English, 2003; Holmes *et al.*, 2003). According to Al-Kharusi (2003); Beck and Demirguc-Kunt (2006); and Sarapaivanich (2006) banks usually do not prefer long term loans - they usually prefer short term loans in financing SMEs at the starting stage due to their more risky nature. It is a fact that in any country the development of SME is based on access to finance. For the growth of SME sector, there is a need to increase access to capital for SMEs then it will not only improve firm performance but also allow economic growth for both individuals and businesses.

2.9. Theoretical framework

In this study, the theoretical framework has been employed to determine the SME structure, their obstacles and financing practices. For this purpose two important theories have been proposed: the pecking order theory (POT) and information asymmetry theory. Figure 1 presents the pecking order theory of financial structure. It was

introduced by Myers (1984). In this theory, preferential financial order has been assumed for choosing funding source. Myers stated that firms always prefer internal financial sources such as retained earnings for the firm as these are less costly than external sources. Therefore, when internal financing sources become less sufficient than the firm will move towards outside funding through borrowing because less information cost is involved in this funding. Another preference is to issue equity financing.

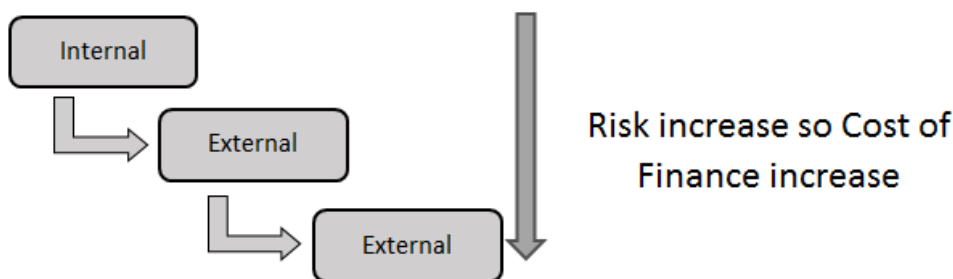


Figure-1. Hierarchy for Pecking order Theory.

Source: Myers and Majluf (1984).

As shown in Figure 2, information asymmetry occurs when owners of SMEs have more information than financiers and lenders do not have appropriate information about their businesses (Coleman, 1998). Many studies proved that information asymmetry is the most significant factor affecting SME access to finance. Investors always prefer information about financial condition and performance to estimate the potential growth of the firm. Keasy and Watson (1993); Pettit and Singer (1985) stated that due to lack of information banks charge a high interest rate.

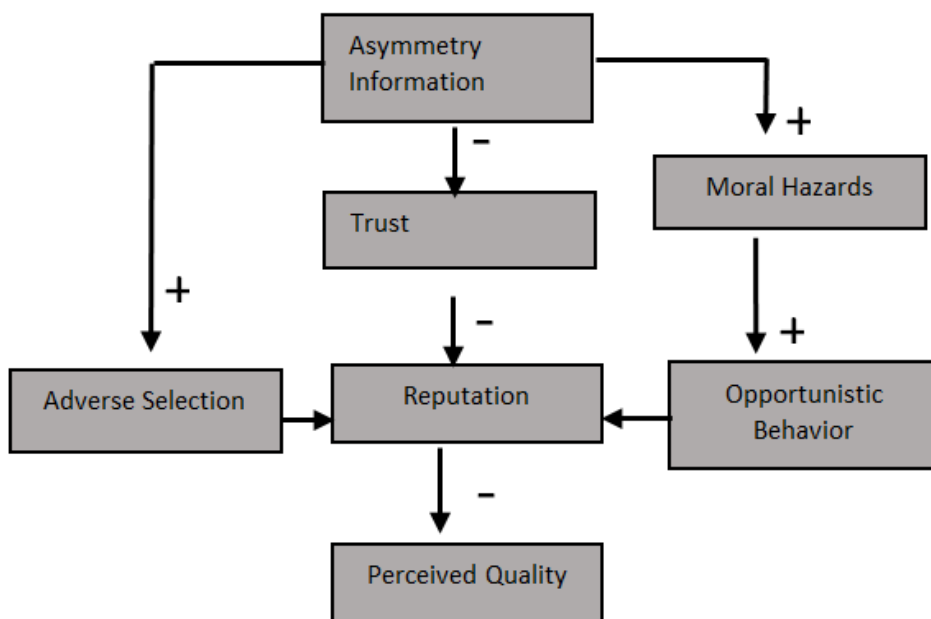


Figure-2. Information Asymmetry Theory.

Source: Jan (2011).

The difficulty and the ease of getting funds from financial investors or providers is based on the owner and their business characteristics. Figure 3 illustrates the conceptual framework that will support to conduct this study. This framework was created on the basis of empirical studies such as Johnson et al. (2002) and Storey (1994). It was constructed to determine the external and internal sources of finance obtainable to SMEs. This framework was designed to elaborate on those factors that support accessing finance from financial institutions in Pakistan. The

conceptual framework is also designed to account for the factors that affect SMEs’ performance due to the lack of financial access.

With the help of this framework, this study will also demonstrate the relationship between access to finance and owner and business characteristics. Owners’ characteristics include gender, experience and education of the SME owner (Sarapaivanich, 2006; Kushnir, 2010; IFC, 2012) and business characteristics include business size, business type, business plan and business growth and profit. Firms’ characteristics and owners’ characteristics are basic ingredients to access finance. This framework will also incorporate the different theories related to SME financing, such as information asymmetric theory (Al-Kharusi, 2003; Quartey, 2003) and POT, suggested by Myers (1984) which describe the hierarchy for sources of funds that it is essential to first rely on sources based on internal funds, then on external financing and lastly select public or private equity (Chittenden et al., 1996; Hall et al., 2000; Quartey, 2003).

The article will also ascertain various types of business obstacles that affect SME performance. All the obstacles that are facing by small and medium businesses characterized into two basic categories: internal obstacles and external obstacles. An internal obstacle may include the variables related to both the entrepreneur and the enterprise (Meza and Webb, 1987; Tudose, 2012; Jahanzeb et al., 2014). While the external obstacle may include the variables related to the business environment (Meza and Webb, 1987; Sibilkov, 2009; Tudose, 2012; Butt et al., 2013).

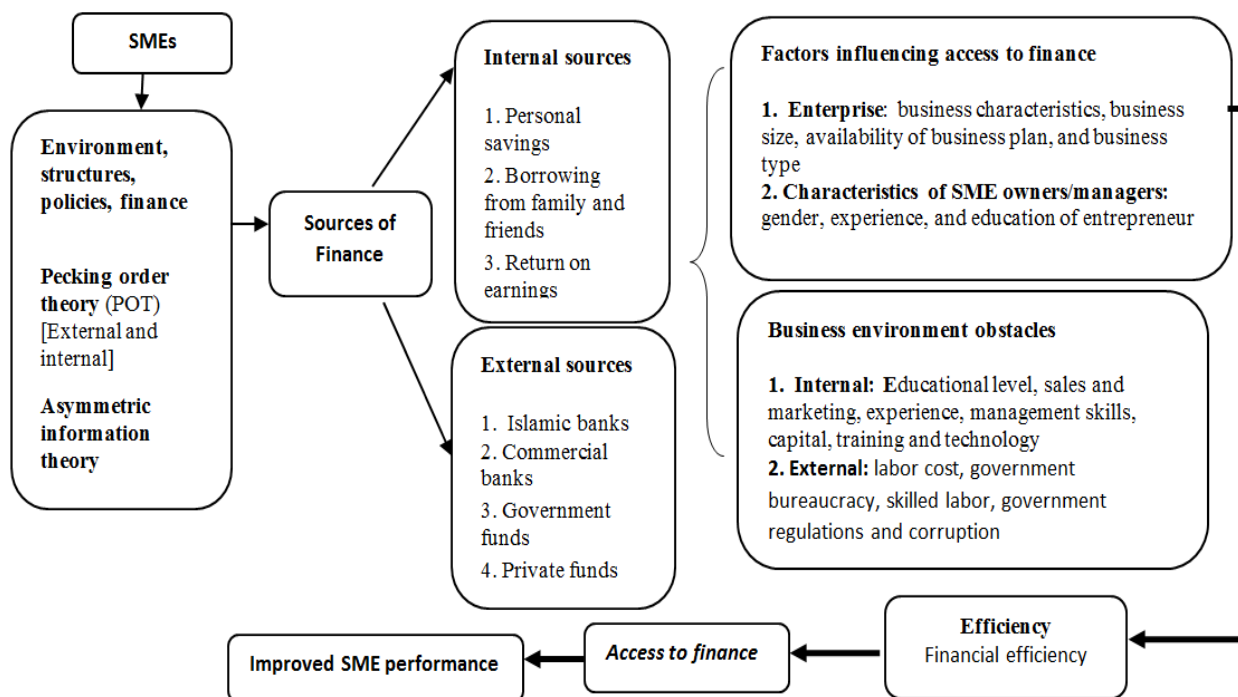


Figure-3. Research Model.

3. RESEARCH METHODOLOGY

This study is quantitative in nature. This study compares the data collected from survey questionnaires. The study with the sample will consist of 150 SMEs located in Karachi. A quota with convenience sampling technique will be used. Data collection can only take place by the survey method. A closed-ended questionnaire is used in this study. To cover the entire Pakistani SME sector, the biggest city of Pakistan, Karachi was taken as a sample unit. A total of 150 owners/managers of SMEs have been selected from Karachi. 75 small enterprises and 75 medium enterprises of Karachi have been chosen for the reliability of data. One to two owners/managers have been selected from each SME. SMEs were reached through a structured questionnaire.

In this investigation, the structured questionnaire concentrated on the characteristics and obstacles of SMEs, access to finance and measuring business performance. The questionnaire comprised three segments that measure awareness of the access of finance. The questionnaire starts with getting the characteristics of the SMEs and their owners and finishes with getting constraints of finance for funding SMEs.

The questionnaire comprises of three segments. The first section had thirteen questions that are based on basic information related to the firm and its entrepreneur. The second section had two questions focusing on the internal obstacles and external obstacles that are faced by small and medium enterprises. The third and last section contained nine questions aiming to identify the financial constraints encountered by SME owners in Pakistan. A few items were assessed on a 5-point Likert Scale, running from 1 (strongly disagree) to 5 (strongly agree) and a few were assessed on a 4-point Likert Scale, running from 1 (Major obstacle) to 4 (No Obstacle). This study used SPSS version 23.0 for testing reliability through the Cronbach Alpha coefficient. Alpha estimation of 0.7 is utilized as a minimum accepted level, as proposed by Nunnally (1978).

4. DESCRIPTIVE ANALYSIS

The first section of the questionnaire describes the basic information about the entrepreneur characteristics with respect to three main factors: gender, experience and education. Table 2 illustrates all the SME's owner/manager characteristics. The results depict that males comprised 55% (82) of the sample and females 45% (68). That is not an equal percentage of the gender groups, due to male dominance in the society. 24.66% (37) of the respondents have a below graduate qualification, 66.66% (100) have a graduate qualification and 8.66% (13) have an above graduate qualification. Proportionally, one-third of the respondents were graduate. Thus, the majority of owners are knowledgeable. 59.33% (89) of the owners/managers had 1-5 years' experience of 1-5 years, 33.00% (33) had 6-10 years' experience and 18.6% (28) had more than 10 years' experience. A majority of the owners had 1-5 years' experience but not more than 10 years' experience.

Similarly, 16.8% (113) of the owners were acting as managers while 20.8% (37) owners do not act as a manager. Thus, the majority of the owners act as a manager.

4.2, 16.8% (50) of the SMEs were in the trading sector, 16.8% (54) SMEs were in the services sector and 16.5% (56) SMEs were from the manufacturing business sectors. Proportionally, there is almost equal distribution of sectors for data collection from Karachi. 8% (13) of the SMEs were from the restaurant sector, 7% (11) of the SMEs were from the grocery sector, 9% (13) of the SMEs were from the trade (Import/Export) sector, 9% (13) of the SMEs were from the real estate sector, 9% (13) of the SMEs were from the health sector, 9% (13) of the SMEs were from the clothing & jewelry sector, 7% (10) of the SMEs were from the vehicle sector 6% (9) of the SMEs were from the furniture sector, 8% (12) of the SMEs were from the scrap sector, 6% (9) of the SMEs were from the finance sector, 18% (12) of the SMEs were from the education sector, 7% (11) of the SMEs were from the power solution sector, and 7% (11) of the SMEs were from other sectors.

The majority of the SMEs sector have been covered in this study. 44% (66) SMEs have 6-10 employees, 28% (42) SMEs have 11-30 employees, 15% (22) SMEs have 31-59 employees, 9% (13) SMEs have 60-99 employees, and 5% (17) SMEs have more than 100. It shows that more than two-thirds came from small enterprises.

48% (72) of SMEs have up to 500,000 PKR market value of their assets, (32) of SMEs 1- 4 Million PKR market value of their assets, (29) of SMEs have 5-9 Million PKR market value of their assets and (17) of SMEs have > 9 Million PKR market value of their assets. The majority of the SMEs have a low market value of their assets.

27% (40) of SMEs have up to 500,000 PKR annual sales turnover of their business, 40% (60) of SMEs 1- 4 Million PKR annual sales turnover of their business, 22% (33) of SMEs have 5-9 Million PKR annual sales turnover of their business and 11% (17) of SMEs have > 9 Million PKR annual sales turnover of their business. The majority of the SMEs have an average annual sales turnover of their business.

52.66% (79) of SMEs were a sole proprietorship, 28% (42) of SMEs were a partnership, 11% (17) of SMEs were companies and 8% (12) of SMEs had another ownership type. The majority of the SMEs had a sole proprietorship ownership of their business.

37% (55) SMEs owner prepared a feasibility study for their business and a business plan before it started, while 63% (95) SMEs owner did not prepare a feasibility study for their business and a business plan before it started. Binzomah (2008) found that there is a positive relationship between a business plan and access to finance because a business plan has been marked by banks.

4.2. 10% (15), 8.66% (13), 9.33% (14), 22.66% (34) and 49.33% (74) of respondents strongly disagreed, disagreed, were neutral on, agreed, and strongly agreed with the statement that 'Business plans give a clear vision for the future of the business' respectively. 7.33% (11), 8.66% (13), 12.66% (19), 24.40.66% (61) and 30.66% (46) of respondents strongly disagreed, disagreed, were neutral on, agreed, strongly agreed with the statement that 'Business plans are useful to access finance' respectively. 11.33% (17), 12.66% (19), 10.00% (15), 26.66% (40) and 39.33% (59) of respondents were strongly disagreed, disagreed, were neutral on, agreed, strongly agreed with the statement that a business plan requires time to be prepared and cost money' respectively. 24.66% (37), 36.66% (55), 30.66% (46), 6.66% (10) and 1.33% (2) of respondents were strongly disagreed, disagreed, were neutral on, agreed, strongly agreed with the statement that 'Can't make a business plan while the business is running' respectively. 15.33% (23), 34.66% (52), 28.66% (43), 7.33% (11) and 14.00% (21) of respondents were strongly disagreed, disagreed, were neutral on, agreed, strongly agreed with the statement that 'A business plan diminishes decision making power of manager and confirms commitment at the top level' respectively.

41% (88) SMEs owner have written a strategic plan for the business and 59% (62) SMEs owners have not written a strategic plan for the business. Therefore, in this study, it has been proved that SMEs that have a business plan prefer a written strategic plan as this will be the helpful to access finance.

30.66% (46) SMEs have an annual growth of 1-10 percent, 40.66% (67) SMEs have an annual growth of 11-20 percent, 18.66% (28) SMEs have an annual growth of 21-30 percent and 6% (9) SMEs have an annual growth of more than 30 percent. Overall, it indicates that the majority of the SMEs have low annual growth. This could indicate low business performance. Descriptive analysis shows that the majority of the SMEs have an accounting and financial system at their firm. They also prepare cash flow forecasting for the financial year annually. This accounting system is not only helpful to record business performance but also supportive in accessing finance from the bank. The aim of the study is to identify the sources of finance for the establishment of the business. The findings shows that 140 (93.3%), 49 (32.7%), 72 (48%), 69 (46%), 42 (28%) and 52 (34.7%) respondents prefer personal resources, commercial bank, Islamic bank, venture capital, government supporting funds, private supporting funds respectively.

Table-2. Descriptive Analysis (n=150).

| Variables | Mean | Std. Deviation | Skewness | Variables | Mean | Std. Deviation | Skewness |
|---------------|------|----------------|----------|----------------------|------|----------------|----------|
| Gender | 1.45 | 0.499 | 0.189 | Commodity Price Risk | 1.36 | 0.482 | 0.589 |
| Education | 1.84 | 0.557 | -0.048 | Financial Obligation | 1.63 | 0.484 | -0.559 |
| Experience | 1.59 | 0.787 | 0.86 | Own Saving | 1.1 | 0.301 | 2.694 |
| Owner Manager | 1.25 | 0.433 | 1.187 | Borrowed From Friend | 1.58 | 0.495 | -0.327 |
| Business Type | 1.97 | 0.802 | 0.048 | Government Fund | 1.76 | 0.429 | -1.23 |
| Business Area | 6.77 | 3.778 | 0.105 | Private Sector Fund | 1.8 | 0.401 | -1.515 |
| Employees | 2.02 | 1.167 | 1.013 | Family Assistance | 1.39 | 0.49 | 0.441 |

| | | | | | | | |
|--------------------------------|------|-------|--------|-----------------------------|------|-------|--------|
| Market Value | 1.94 | 1.063 | 0.698 | Bank Funds | 1.33 | 0.473 | 0.714 |
| Annual Turnover | 2.18 | 0.956 | 0.425 | Venture Capital Fund | 1.64 | 0.482 | -0.589 |
| Business Structure | 1.75 | 0.95 | 1.101 | Trade Credit Fund | 1.61 | 0.49 | -0.441 |
| Business Plan | 1.63 | 0.484 | -0.559 | Raw Material Need | 1.36 | 0.482 | 0.589 |
| Plan Gives Clear Vision | 3.93 | 1.357 | -1.059 | Working Capital Need | 1.32 | 0.468 | 0.78 |
| Plan Useful to Access Finance | 3.79 | 1.185 | -0.976 | Fixed Asset Need | 1.27 | 0.444 | 1.066 |
| Plan Time Money Taking | 3.7 | 1.394 | -0.76 | Equipment Need | 1.21 | 0.406 | 1.464 |
| Business Plan During Business | 2.23 | 0.944 | 0.389 | Production Need | 1.41 | 0.494 | 0.356 |
| Reduce Decision Making Power | 2.7 | 1.23 | 0.548 | Exporting Importing Need | 1.57 | 0.497 | -0.272 |
| Written Strategic Plan | 1.41 | 0.494 | 0.356 | Rent Need | 1.59 | 0.493 | -0.384 |
| Annual Growth | 2 | 0.859 | 0.579 | New Market Need | 1.36 | 0.482 | 0.589 |
| Financial Accounting System | 1.19 | 0.391 | 1.625 | Business Expansion Need | 1.11 | 0.31 | 2.574 |
| Financial Transactions Monthly | 1.22 | 0.416 | 1.366 | Access to Finance | 1.13 | 0.334 | 2.268 |
| Cash Flow | 1.34 | 0.475 | 0.682 | Acceptance Criteria | 1.59 | 0.494 | -0.356 |
| Gender Issue | 2.94 | 0.964 | -0.471 | Religious Issue | 1.54 | 0.5 | -0.162 |
| Education Level Issue | 1.81 | 1.019 | 1 | High Interest | 1.15 | 0.362 | 1.944 |
| Management Skills Issue | 1.45 | 0.71 | 1.503 | Paperwork | 1.47 | 0.501 | 0.135 |
| Work Experience Issue | 1.87 | 0.8 | 0.724 | High Collateral | 1.39 | 0.49 | 0.441 |
| Capital Availability Issue | 1.59 | 0.677 | 0.73 | Interest Rate | 1.55 | 0.824 | 1.288 |
| Technology Issue | 1.87 | 0.869 | 0.622 | Loan Difficulties | 1.17 | 0.374 | 1.807 |
| Labor Issues | 2.01 | 0.894 | 0.33 | High Interest Rate | 1.17 | 0.38 | 1.743 |
| Skilled Employees Issue | 1.66 | 0.784 | 1.105 | High Collateral Requirement | 1.41 | 0.494 | 0.356 |
| Corruption Issue | 1.61 | 0.947 | 1.327 | Loan Time | 1.46 | 0.5 | 0.162 |
| Legal Issues | 1.97 | 0.904 | 0.66 | Insufficient Finance Amount | 1.44 | 0.498 | 0.244 |
| Government Support Issue | 1.98 | 0.901 | 0.43 | Complex Loan Procedure | 1.45 | 0.499 | 0.217 |
| Financial Support Issue | 1.85 | 0.873 | 0.796 | High Service Fees | 1.31 | 0.463 | 0.847 |
| Competitors Issue | 1.97 | 0.814 | 0.59 | More Paperwork | 1.39 | 0.49 | 0.441 |
| Customer Satisfaction Issue | 1.44 | 0.823 | 1.804 | Loan Duration | 1.4 | 0.492 | 0.412 |
| Personal Resource | 1.07 | 0.25 | 3.51 | Business Performance | 1.21 | 0.411 | 1.414 |

| | | | | | | | |
|----------------------------|------|-------|--------|-------------------------------|------|-------|-------|
| Commercial Bank | 1.67 | 0.471 | -0.747 | Collateral Lack | 1.41 | 0.493 | 0.384 |
| Islamic Bank | 1.52 | 0.501 | -0.081 | Financial Information Lack | 1.47 | 0.501 | 0.135 |
| Venture Capital | 1.54 | 0.5 | -0.162 | Poor Performance | 1.43 | 0.496 | 0.3 |
| Government Supporting Fund | 1.72 | 0.451 | -0.99 | Business Startup | 1.46 | 0.5 | 0.162 |
| Private Supporting Fund | 1.65 | 0.478 | -0.651 | Lack Credit Record | 1.44 | 0.498 | 0.244 |
| Interest Risk | 1.49 | 0.501 | 0.054 | Lack Accuracy Financial Info. | 1.48 | 0.501 | 0.081 |
| Credit Scoring Risk | 1.5 | 0.502 | 0 | Bank Requirements | 1.4 | 0.492 | 0.412 |
| Liquidity Risk | 1.51 | 0.501 | -0.054 | Risky Project | 1.33 | 0.473 | 0.714 |
| Funding Risk | 1.43 | 0.496 | 0.3 | Insufficient Information | 1.41 | 0.493 | 0.384 |
| Foreign Exchange Risk | 1.48 | 0.501 | 0.081 | Inadequate Planning | 1.43 | 0.497 | 0.272 |

In order to find the financial risk of SMEs, 77 (51.3%), 75 (50%), 73 (48.7%), 86 (57.3%), 78 (52%), 96 (64%) of the respondents admitted that they faced interest risk, credit scoring, liquidity, funding risk, foreign exchange risk and commodity price risk respectively. 55 (36.7%) of the respondent have a financial obligation. Findings for the sources of finance after the establishment of business shows that 135 (90%), 63 (42%), 36 (24%), 30 (20%), 91 (60.7%), 100 (66.7%), 54 (36%), 59 (39.3%) of the respondents depended on their own savings, borrowed from friend, or used government funds, private sector funds, family assistance, bank loans, venture capital and trade capital respectively. The results show that 96 (64%), 102 (68%), 110 (73.3%), 119 (79.3%), 88 (58.7%), 65 (43.3%), 61 (40.7%), 96 (64%), 134 (89.3%) of the respondents needed financing for purchasing raw material, working capital, fixed assets, equipment/vehicles, production processes, exporting/importing, rent, new market entrances and business expansion respectively. Results further show that 131 (87.3%) of the respondents applied for loans from the bank. The survey identified that 62 (41.3%), 69 (46%), 127 (84.7%), 80 (53.3%), 91 (60.7%), 95 (63.3%) of the respondents did not apply for loans due to unfavorable acceptance criteria, religious issues, high interest rates, too much paperwork and high collateral respectively. 125 (83.3%) of respondents faced difficulty in accessing loans from banks. 118 (78.8%) respondents admitted that the difficulty of accessing loans from banks affected their business performance.

The results of the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) and Bartlett's Test of Sphericity are presented in Table 3. The KMO was 0.913, and the level of significance for Bartlett's Test of Sphericity was also 0.000, concluding that the sample was sufficient for the principal component analysis.

Table-3. KMO and Bartlett's Test.

| KMO and Bartlett's Test | | |
|--|--------------------|----------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .913 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 9075.399 |
| | Df | 606 |
| | Sig. | .000 |

The reliability through Cronbach Alpha coefficient is presented in Table 4. Alpha estimation of 0.7 is utilized as a minimum accepted level, as proposed by Nunnally (1978). Internal reliabilities were registered for two items owner/manager characteristics (education & experience), seven items of business characteristics (size of business,

business plan, business ownership type, sixteen items of obstacles facing SMEs by business environment, eight items of bank related obstacles facing SMEs, nine items of access to finance and two items of business performance and the corresponding Cronbach Alpha esteem values for Manager Characteristic (0.425), Business Characteristic (0.177), Obstacles facing SMEs by Business Environment (0.653), Obstacles facing SMEs by Bank (0.786), Access to Finance (0.813) and Business Performance (0.211). This outcome demonstrates that the exploration instrument gives off an impression of being very dependable, for measuring the effect of owner/manager characteristics, business characteristics, obstacles by business environment and bank related obstacles on access to finance and business performance.

Table-4. Reliability Test Result.

| VARIABLE | # OF ITEMS | CRONBACH ALPHA |
|---|------------|----------------|
| Manager Characteristic | 4 | 0.425 |
| Business Characteristic | 11 | 0.177 |
| Obstacles facing SMEs by Business Environment | 16 | 0.653 |
| Obstacles facing SMEs by Bank | 8 | 0.786 |
| Access to Finance | 43 | 0.813 |
| Business Performance | 2 | 0.211 |

The first set of hypotheses are tested using the t-test analysis presented in Table 5. The test determines the p-value. If the estimated p-value is less than the 5% level of significance, the null hypothesis is rejected.

H_{1a}: There is an association between the gender of SME owners and their access in finance

The mean value of gender is to be 1.45. The estimated p-value for this means at 5% significance level is $p=0.000$, which provides sufficient evidence to reject the null hypothesis i.e. H_0 (there is no association between the gender of SME owners and their access to finance) and accept the alternate hypothesis i.e. H_{a1} (there is an association between the gender of SME owners and their access in finance.). This implies that the gender of the SMEs owner significantly affects the access to finance.

H_{1b}: There is an association between the education of SME owners and their access to finance

The mean value of gender is to be 1.84. The estimated p-value for this means at 5% significance level is $p=0.000$, which provides sufficient evidence to reject the null hypothesis i.e. H_0 (there is no association between the education of SME owners and their access to finance) and accept the alternate hypothesis i.e. H_{a1} (there is an association between the education of SME owners and their access in finance.). This implies that the education of the SMEs owner significantly affects the access to finance.

H_{1c}: There is an association between the experience of SME owners and their access in finance

The mean value of gender is to be 1.59. The estimated p-value for this means at 5% significance level is $p=0.000$, which provides sufficient evidence to reject the null hypothesis i.e. H_0 (there is no association between the experience of SME owners and their access to finance) and accept the alternate hypothesis i.e. H_{a1} (there is an association between the experience of SME owners and their access in finance.). This implies that the experience of the SMEs owner significantly affects the access to finance.

It was concluded that the mean scores of all three characteristics of SME owners highly affect the access to finance. Therefore, all alternative hypotheses of the first set were justified, and the results are satisfactory. However, consistent and continuous improvement in all characteristics of SMEs owner is required, to enhance the chances of access to finance.

Table-5. One-Sample Test.

| One-Sample Test | | | | | | | |
|--------------------|-----|------|------|--------|-----|-----------------|---------------|
| Test Value = 0.000 | | | | | | | |
| Variables | N | M | SD | T | DF | Sig. (2-tailed) | Result |
| Gender | 150 | 1.45 | .499 | 35.636 | 149 | .000 | Ha1= Accepted |
| Education | 150 | 1.84 | .557 | 40.488 | 149 | .000 | Ha2= Accepted |
| Experience | 150 | 1.59 | .787 | 24.808 | 149 | .000 | Ha3= Accepted |
| Access to Finance | 150 | 1.13 | .334 | 41.349 | 149 | .000 | - |

The second set of hypotheses were statements regarding the association in business characteristics and access to finance for SMEs. As shown in Table 6 the statistical technique of one-way ANOVA was used, as the mean of more than two groups had to be compared.

H_{b1}: There is an association between the business type and access to finance

The mean value of business type is 1.97 for access to finance. The estimated p-value of the one way ANOVA for the business type is 0, which is less than the 5% level of significance, indicating that there is a significant difference in the mean values of the business type. So, the null hypothesis, i.e. there is no association between the business type and its access to finance, was rejected. The one-way ANOVA concludes that there is an association between the business type and access to finance.

H_{b2}: There is an association between the business area and access to finance

The highest mean value of the business area is 6.77 for access to finance. The estimated p-value of the one way ANOVA for the business area is 0, which is less than the 5% level of significance, indicating that there is a significant difference in the mean values of the business area. So, the null hypothesis, i.e. there is no association between the business area and its access to finance, was rejected. The one-way ANOVA concludes that there is an association between the business area and access to finance.

H_{b3}: There is an association between the number of employees and access to finance

The highest mean value for a number of employees is 2.02 for access to finance. The estimated p-value of the one way ANOVA for a number of employees is 0, which is less than the 5% level of significance, indicating that there is a significant difference in the mean values of the number of employees. So, the null hypothesis, i.e. there is no association between the number of employees and its access to finance, was rejected. The one-way ANOVA concludes that there is an association between the number of employees and access to finance.

H_{b4}: There is an association between the market value and access to finance

The highest mean value of market value is 1.94 for access to finance. The estimated p-value of the one way ANOVA for market value is 0, which is less than the 5% level of significance, indicating that there is a significant difference in the mean values of market value. So, the null hypothesis, i.e. there is no association between the market value and its access to finance, was rejected. The one-way ANOVA concludes that there is an association between the market value and access to finance.

H_{b5}: There is an association between the annual turnover and access to finance

The highest mean value of annual turnover is 2.18 for access to finance. The estimated p-value of the one way ANOVA for annual turnover is 0, which is less than the 5% level of significance, indicating that there is a significant difference in the mean values of annual turnover. So, the null hypothesis, i.e. that there is no association between the

annual turnover and its access to finance, was rejected. The one-way ANOVA concludes that there is an association between the annual turnover and access to finance.

H_{b6}: There is an association between the business structure and access to finance

The highest mean value of the business structure is 1.75 for access to finance. The estimated p-value of the one way ANOVA for a business structure is 0, which is less than the 5% level of significance, indicating that there is a significant difference in the mean values of business structure. So, the null hypothesis, i.e. that there is no association between the business structure and its access to finance, was rejected. The one-way ANOVA concludes that there is an association between the business structure and access to finance.

H_{b7}: There is an association between the business plan and access to finance

The highest mean value of the business plan is 1.75 for access to finance. The estimated p-value of the one way ANOVA for a business plan is 0, which is less than the 5% level of significance, indicating that there is a significant difference in the mean values of the business plan. So, the null hypothesis, i.e. that there is no association between the business plan and its access to finance, was rejected. The one-way ANOVA concludes that there is an association between the business plan and access to finance.

H_{b8}: There is an association between the written strategic plan and access to finance

The highest mean value of the written strategic plan is 1.75 for access to finance. The estimated p-value of the one way ANOVA for a written strategic plan is 0, which is less than the 5% level of significance, indicating that there is a significant difference in the mean values of the written strategic plan. So, the null hypothesis, i.e. that there is no association between the written strategic planned its access to finance, was rejected. The one-way ANOVA result concludes that there is an association between the written strategic plan and access to finance.

Table-6. One-way ANOVA.

| One-way ANOVA | | | | | | |
|------------------------|------|------|-------|-------|------|---------------------------|
| Variables | N | M | SD | F | Sig | Results |
| Business Type | 150 | 1.97 | 0.802 | .024 | .877 | H _{b1=} Accepted |
| Business Area | 150 | 6.77 | 3.778 | .989 | .322 | H _{b2=} Accepted |
| Employees | 150 | 2.02 | 1.167 | 3.971 | .048 | H _{b3=} Accepted |
| Market Value | 150 | 1.94 | 1.063 | .434 | .511 | H _{b4=} Accepted |
| Annual Turnover | 150 | 2.18 | 0.956 | 2.068 | .152 | H _{b5=} Accepted |
| Business Structure | 150 | 1.75 | 0.950 | 1.807 | .181 | H _{b6=} Accepted |
| Business Plan | 150 | 1.63 | 0.484 | 4.286 | .040 | H _{b7=} Accepted |
| Written Strategic Plan | 1;50 | 1.41 | 0.494 | 4.340 | .039 | H _{b8=} Accepted |

Inferential statistics as shown in Table 7 are used to draw inferences or make conclusions about the sample. In this study, non-parametric methods, such as correlation analysis of variation, were used to make inferences.

H_c: There is an association between the obstacles facing SMEs by business environment and their business performance

Overall, the findings reveal a highly positive and significant correlation between obstacles facing SMEs in terms of the business environment and business performance. Management skill, capital availability, technology, labor, skilled employees, corruption, legal environment, government support and financial support each have a positive correlation with business performance ($r = 0.062, p < 0.01$), ($r = 0.005, p < 0.01$), ($r = 0.057, p < 0.01$), ($r = 0.051, p < 0.01$), ($r = 0.081, p < 0.01$), ($r = 0.110, p < 0.01$), ($r = 0.106, p < 0.01$), ($r = 0.102, p < 0.01$) and ($r = 0.036, p < 0.01$) respectively. Gender, education, work experience, competitor and customer satisfaction each have a negative

correlation with business performance ($r = -0.035$, $p < 0.01$), ($r = -0.048$, $p < 0.01$), ($r = -0.056$, $p < 0.01$), ($r = -0.159$, $p < 0.01$) and ($r = -0.041$, $p < 0.01$) respectively.

H_{ca}: There is an association between the bank related obstacles facing SMEs and their business performance

Overall, the findings illustrate a highly positive and significant correlation between bank related obstacles facing SMEs and business performance. High interest rates, loan time, complex loan procedure and high service fee each have a positive correlation with business performance ($r = 0.406$, $p < 0.01$), ($r = 0.140$, $p < 0.01$), ($r = 0.121$, $p < 0.01$) and ($r = 0.183$, $p < 0.01$) respectively. High collateral requirement, insufficient finance amount, more paper work and loan duration each have a negative correlation with business performance ($r = -0.041$, $p < 0.01$), ($r = -0.068$, $p < 0.01$), ($r = -0.020$, $p < 0.01$) and ($r = -0.060$, $p < 0.01$) respectively.

H_{cb}: There is an association between the obstacles facing SMEs by business environment and their access to finance

The findings depict a highly positive and significant correlation between obstacles facing SMEs in terms of business environment and access to finance. Gender, education, management skill, capital availability, technology, labor, skilled employees, corruption, legal environment, government support and financial support each have a positive correlation with business performance ($r = 0.045$, $p < 0.01$), ($r = 0.169$, $p < 0.01$), ($r = 0.043$, $p < 0.01$), ($r = 0.025$, $p < 0.01$), ($r = 0.148$, $p < 0.01$), ($r = 0.065$, $p < 0.01$), ($r = 0.089$, $p < 0.01$), ($r = 0.092$, $p < 0.01$), ($r = 0.034$, $p < 0.01$), ($r = 0.142$, $p < 0.01$), ($r = 0.067$, $p < 0.01$), ($r = 0.016$, $p < 0.01$) and ($r = 0.065$, $p < 0.01$) respectively. Only work experience has a negative correlation with access to finance ($r = -0.087$, $p < 0.01$).

Table-7. Pearson Correlation.

| | Business Performance | Access to Finance |
|-----------------------------|-----------------------------|--------------------------|
| Gender Issue | -0.035 | 0.045 |
| Education Level Issue | -0.048 | .169* |
| Management Skills Issue | 0.062 | 0.043 |
| Work Experience Issue | -0.056 | -0.087 |
| Capital Availability Issue | 0.005 | 0.025 |
| Technology Issue | 0.057 | 0.148 |
| Labor Issues | 0.051 | 0.065 |
| Skilled Employees Issue | 0.081 | 0.089 |
| Corruption Issue | 0.11 | 0.092 |
| Legal Issues | 0.106 | 0.034 |
| Government Support Issue | 0.102 | 0.142 |
| Financial Support Issue | 0.036 | 0.067 |
| Competitors Issue | -0.159 | 0.016 |
| Customer Satisfaction Issue | -0.041 | 0.065 |
| High Interest Rate | .406** | -0.174* |
| High Collateral Requirement | -0.041 | .250** |
| Loan Time | 0.14 | 0.091 |
| Insufficient Finance Amount | -0.068 | .187* |
| Complex Loan Procedure | 0.121 | 0.101 |
| High Service Fees | .183* | 0.138 |
| More Paperwork | -0.02 | 0.145 |
| Loan Duration | -0.06 | 0.098 |

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

H_{cb}: There is an association between the obstacles facing SMEs by bank and their access to finance

The outcomes reveal a highly positive and significant correlation between obstacles facing SMEs by bank and access to finance. High interest rate, high collateral requirement, loan time, insufficient finance amount, complex loan procedure and high service fee, more paper work and loan duration each have a positive correlation with

business performance ($r = 0.174$, $p < 0.01$), ($r = 0.250$, $p < 0.01$), ($r = 0.091$, $p < 0.01$) and ($r = 0.187$, $p < 0.01$), ($r = 0.101$, $p < 0.01$), ($r = 0.138$, $p < 0.01$), ($r = 0.145$, $p < 0.01$) and ($r = 0.098$, $p < 0.01$) respectively.

Table-8. Chi-Square Tests.

| Chi-Square Tests | | | | | |
|---|--------------------|----|-----------------------|----------------------|----------------------|
| Relationship Between Access to Finance and Business Performance | | | | | |
| | Value | Df | Asymp. Sig. (2-sided) | Exact Sig. (2-sided) | Exact Sig. (1-sided) |
| Pearson Chi-Square | 5.900 ^a | 1 | .015 | | |
| Continuity Correction ^b | 4.534 | 1 | .033 | | |
| Likelihood Ratio | 9.841 | 1 | .002 | | |
| Fisher's Exact Test | | | | .014 | .007 |
| Linear-by-Linear Association | 5.861 | 1 | .015 | | |
| N of Valid Cases | 150 | | | | |

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 4.05.

b. Computed only for a 2x2 table

In this study the relationship between access to finance and business performance were analyzed and the Pearson Chi-Square results show in Table 8 that the two sided assumed significant value (i.e. 0.015) is less than alpha value (i.e. 5.900). Having an expected count less than 5 with these resultsshow that access to finance significantly affects business performance

4.1. Discussions

In this study, the demographic information of owners and their businesses were tested with the help of descriptive statistics. This study will provide an overview of obstacles faced by Pakistani SMEs, and several other features of access to finance. Findings of this study are similar to the findings of previous other studies and some other additional findings have also been observed. Testing through statistical analysis has been used in order to measure the relationship among other several variables (owner characteristics, business characteristics, business performance, access to finance and SME obstacles).

The association among variables was tested by applying the T-test analysis. T-test findings investigated the relationship between manager/owners characteristics and access to finance. Significant results indicated that the gender, education and experience of the SMEs manager were significantly related to access to finance. In this study, findings show that education is the most important factor that affects access to finance. The most significant factor for accessing finance from the bank is the education of a SME owner (Coleman, 2004; Saffu *et al.*, 2006). Education is also directly related to skills, knowledge and problem-solving abilities, therefore, there is a relationship between the education level of SME owners and business performance (Parker, 2004; Saffu *et al.*, 2006).

A second most important factor is experience. Kvale (1996) argued that the more inexperienced the SME's owner the more difficult it will be to access finance from banks due to the high risk involved in the business. Hustedde and Pulver (1992) found that due to a lack of entrepreneurial experience access to finance becomes more difficult.

In this study, gender has been ranked third with positive impact. Past research showed a negative relationship between access to finance and gender. Previous research further emphasized that variation in access to finance occurs due to gender difference. Female managers therefore are less able to access finance due to their poor managerial skills and lack of experience (Belcourt *et al.*, 1991; Loscocco *et al.*, 1991; Tigges and Green, 1994; Light and Rosenstein, 1995; Saffu and Manu, 2004; Shaw *et al.*, 2006).

Using ANOVA to investigate the relationships between business characteristics and access to finance. Business plans, annual turnover, annual growth and market value of a firm are directly related to access to finance. The size of the firm is defined by the annual turnover of the firm. These findings have also been confirmed by several other researchers. For large businesses, the size of the firm is the most important factor in influencing access to external finance. Therefore small businesses face more difficulties in accessing external finance due to their firm size. (Keasey and Watson, 1993).

In this study, the most critical finding that has been observed during the survey is the availability of a business plan is key. The business plan is highly associated with access to finance. Those businesses that did not draft their business plan at the establishment time of their business faced more problems in accessing finance as compared to those businesses whose business plans had been drafted and implemented. Their lack of finance therefore directly affected business performance. The business plan is considered to be the most important and critical factor for accessing finance by every financial institution and bank (Barrow, 1993; Berry *et al.*, 1993a; Reid, 1998). Poor business plans lead the firm towards difficulty in accessing finance directly affecting the performance of the business. Other factors were also significant such as annual growth, market share and sales turnover. The higher the growth rate of the firm the easier it was for the firm to access finance. This directly impacted the performance of the business (Berger and Udell, 1998; Johnsen and McMahon, 2005).

Some significant relationship among desired variables have been hypothesized by the correlation analysis. In this study, a few findings have been identified by cross-tabulation in order to obtain some new associations among variables. The findings reveal a highly positive and significant correlation between the obstacles facing SMEs in the business environment and business performance. Management skill, capital availability, technology, labor, skilled employees, corruption, legal environment, government support and financial support each have a positive correlation with business performance. Gender, education, work experience, competitor and customer satisfaction each have a negative correlation with business performance. Similarly, the findings illustrate a highly positive and significant correlation between bank related obstacles facing SMEs and business performance. High-interest rate, loan time, complex loan procedure and high service fee each have a positive correlation with business performance. High collateral requirement, insufficient finance amount, more paper work and loan duration each have a negative correlation with business performance.

The findings depict a highly positive and significant correlation between obstacles facing SMEs in the business environment and access to finance. Gender, education, Management skill, capital availability, technology, labor, skilled employees, corruption, legal environment, government support and financial support have positive correlations with business performance. Only work experience has a negative correlation with access to finance. The outcomes reveal a highly positive and significant correlation between bank related obstacles facing SMEs and access to finance. High interest rates, high collateral requirement, loan time, insufficient finance amount, complex loan procedure and high service fee, more paper work and loan duration have a positive correlation with business performance.

Generally, significant and specific relationships have been identified between the numerous SME obstacles and access to finance; SMEs performance and access to finance.

5. CONCLUSION

This research has been conducted to analyze the financial obstacles on SMEs in order to access to finance and the effect of these obstacles on business performance. This study, therefore, has highlighted four essential and basic issues: the influence of business characteristics (business size, business type and business plan) on access to finance; the influence of owner's characteristics (education, gender and experience) on access to finance; the influence of internal and external obstacles by business environment on business performance; and the effect of bank related obstacles on SME business performance and access to finance. To accomplish the aim of this study, 150

Pakistani SME were selected and their entrepreneurs were surveyed through questionnaires. Descriptive analysis, KMO and Bartlett's Test, reliability test, One-Sample Test, One-way ANOVA, Pearson Correlation, Chi-Square Tests were used to investigate the hypothesis in order to achieve the objective of this study.

Empirical evidence has been provided in this study on the issues of Pakistani SMEs sector in order to access finance from banks. This study has also identified the ways to reassure banks in financing SMEs. This study specifically determines the association between obstacles faced by SMEs and the performance of SMEs in Pakistan.

All in all, the findings of this research should empower banks to focus on and upgrade their serving of the requirements of SMEs. It likewise gives entrepreneurs a valuable perception of knowledge into variables and issues identifying with limitations in getting funds from banks and other monetary establishments, and some key elements to help build up their organizations. At last, future research ought to be coordinated continue examination of these issues.

5.1. Practical and managerial implications

This study expands academic knowledge in the sector of SMEs and finance related institute. It might incite the interest of academics working in Pakistan as well as in different countries to expand and develop the scope of SMEs. The literature review is based on financial limitations and issues related to access to finance by SMEs from banks. This study distinguishes internal and external obstacles that influence business performance. This study delivers value-added knowledge to SME business visionaries who have neglected to secure bank financing, which identifies components influencing access to back from banks and other financial institutions and explains why their past endeavors to acquire financing may have been ineffective.

This study has also illustrated that the majority of banks of Pakistan are restricted in financing startup businesses as these businesses have inadequate information and a lack of collateral. The majority of the SMEs also have a bad experience in accessing finance. Therefore they select alternative tools such as internal sources or equity finance to fulfill their business needs because they consistently face problems in accessing a bank loan. Banks must find out the root cause of these problems and the solutions to ensure the growth and success of SMEs.

5.2. Limitations and Future Scope of Research

Likewise, with other research, there are a few limitations to this research also, which don't diminish the essentialness of its findings. This study is focused on SMEs based in Karachi only. Therefore, the implications of the study are only restricted to Karachi businesses. As SMEs are situated in other cities also but don't have sites or electronic mail to empower correspondence with them, it was hard for the scientist to reach and get in touch with them because of time imperatives on data collection. Future research may be able to address in more detail the primary goals of this investigation. Studies could enhance the sample sizes for every one of the three segments (trade, service and manufacturing), and enhance the quantity of SMEs from other different parts of Pakistan so as to investigate the significance of the research. Future analysts might conduct research outside the limitations of this study and analyze different kinds of financing for SMEs.

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APPENDIX

Questionnaire

Section I: Background information

This section records background information about the firm and yourself

1. What is the name of your firm?

2. What is your business type (s)?
 - Trading
 - Service
 - Manufacturing
3. What is your business area(s)?
 - Restaurant

- Grocery
 - Trade (Import/Export)
 - Real Estate
 - Health
 - Clothing, Jewellery
 - Vehicle
 - Furniture
 - Scrap
 - Finance
 - Education
 - Power Solution
 - Other
4. What is the estimated current market value of your business(s) total assets?
- Up to 500,000 PKR
 - 1-4 Million PKR
 - 5-9 Million PKR
 - > 9 Million PKR
5. What is the estimated annual turnover of your business(s)?
- Up to 500,000 PKR
 - 1-4 Million PKR
 - 5-9 Million PKR
 - > 9 Million PKR
6. How many employees do you currently have in your business(s)?
- 1-10
 - 11-30
 - 31-60
 - 61-99
 - > 100
7. What is your business(s) legal structure form?
- Sole proprietorship
 - Partnership
 - Company
 - Other
8. Does the founder of the business(s) act as manager?
- No
 - Yes
9. What is the gender of the owner?
- Male
 - Female

10. How many years of experience did you have when you started the business?

- 1-5 Year
- 6-10 Year
- > 10 Year

11. What is your level of education?

- Undergraduate
- Graduate
- Postgraduate

12. Did you prepare a business plan or feasibility study for your business before it started?

- Yes
- No

13. How strongly do you agree/disagree with each of the following statement?

| | Strongly Disagree | Disagree | Neutral | Strongly Agree | Agree |
|--|-------------------|----------|---------|----------------|-------|
| Business plan gives clear vision for the future of the business | | | | | |
| Business plan useful to access finance | | | | | |
| Business plan takes time to be prepared and cost money | | | | | |
| We can't make business plan while the business is running | | | | | |
| Business plan reduces manager decision making power and ensuring commitment at the top level | | | | | |

Section II: Business Obstacles

This section aims to identify obstacles that face the firm (internal & external)

14. Using the four-point scale given below, how problematic do you consider these difficulties and issues as obstacle for growth of your business

| Variables | Major Obstacle | Moderate Obstacle | Less Obstacle | No Obstacle |
|-----------------------------------|----------------|-------------------|---------------|-------------|
| Gender | | | | |
| Education Level | | | | |
| Management Skills | | | | |
| Work Experience | | | | |
| Availability of Capital | | | | |
| Technology | | | | |
| Labor Issue | | | | |
| Availability of skilled employees | | | | |
| Corruption | | | | |
| Legal Issues | | | | |
| Government support | | | | |
| Financial support | | | | |
| Competitors | | | | |
| Customer Satisfaction | | | | |

15. Do you have a written strategic plan for the business?

- Yes
- No

16. What is the annual growth rate of your firm?

- 1-10 percent
- 11-20 percent
- 21-30 percent
- > 30 percent

17. Do you have a financial and accounting system at your firm

- Yes
- No

18. Does the firm prepare its financial transactions report on a monthly basis?

- Yes
- No

19. Do you always prepare cash flow forecasting for the financial year at the beginning of the year?

- Yes
- No

20. Which of the following source(s) of finance did you use when you started your business?

| Sources of Finance before Establishment | Yes | No |
|---|-----|----|
| Personal resources | | |
| Commercial bank | | |
| Islamic bank | | |
| Venture capital | | |
| Government supporting funds | | |
| Private sector funds | | |

21. What are the major financial risks facing your firm?

| Financial Risk | Yes | No |
|-----------------------|-----|----|
| Interest Risk | | |
| Credit Scoring | | |
| Liquidity | | |
| Funding Risk | | |
| Foreign Exchange Risk | | |
| Commodity Price Risk | | |

22. Does the firm have any loan or financial obligations to any financial institutions?

- Yes
- No

Section III: Access to finance

This section aims to identify the financial constraints for funding SMEs

23. What were the sources of finance you used after the establishment stage for your business?

| Sources of Finance after Establishment | Yes | No |
|--|-----|----|
| Own Savings | | |
| Borrowed from Friend | | |
| Loan from government fund | | |
| Loan from private sector fund | | |
| Family assistant | | |
| Loan from bank | | |
| Venture Capital | | |
| Trade Credit | | |

24. Why did you need financing for?

| Financing Need | Yes | No |
|-------------------------|-----|----|
| Purchasing raw material | | |
| Working Capital | | |
| Purchasing fixed asset | | |
| Equipment / vehicle | | |
| Production Process | | |
| Exporting / Importing | | |
| Rent | | |
| Enter new market | | |
| Expand business | | |

25. Have you applied for loans from bank?

- Yes
- No

26. If you did not apply for loan than what was the reason

| Reason for not applying loan | Yes | No |
|------------------------------------|-----|----|
| Don't meet the acceptance criteria | | |
| Religious issue | | |
| Ask high interest | | |
| Too much paperwork | | |
| Ask high collateral | | |

27. What interest rate were you charged for your loan?

- Kibore + 1 - 2
- Kibore + 2 - 3
- Kibore + 3 - 4
- Kibore + 4 - 5

28. Have you faced difficulties in obtaining loans from banks

- Yes
- No

29. What difficulties have you faced when you applied for loans from banks?

| Difficulties during applied loans | Yes | No |
|--|------------|-----------|
| High interest rate | | |
| High collateral requirements | | |
| Time to get loan is too long | | |
| Insufficient amount of finance | | |
| Complexity of application & loan procedure | | |
| High services fees | | |
| Too much paperwork | | |
| Loan duration is too short | | |

30. Is the above highlighted difficulty affect to your business performance?

- Yes
- No

31. If you failed to access finance or your financing application was rejected, what were the reasons given by the bank or other financial institution you applied to?

| Reason of Loan Rejection | Yes | No |
|--|------------|-----------|
| Lack of collateral | | |
| Lack of financial information | | |
| Poor business performance | | |
| New business start up | | |
| Lack of credit record history | | |
| Lack of accurate and comprehensive financial information | | |
| Don't meet requirements | | |
| Project too risky | | |
| Insufficient information | | |
| Inadequate business planning | | |

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