Australian Journal of Business and Management Research
New South Wales Research Centre Australia *(NSWRCA)*

Vol.05 No.08 | 2018

ISSN: 1839 - 0846

DOES SMALL AND MEDIUM ENTERPRISE (SME) FINANCIAL RESOURCE BUILDING EFFORT ON PERFORMANCE DESERVE ATTENTION?

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ABSTRACT

Often times it is argued that firm's resources most especially financial resources have significant impact on performance. However, in spite of the indelible phenomenal impact of financial resources exhibit toward firm performance, relatively, the attention (effort) pay in building this financial resource is less examined. Relied on this assertion, this paper sought to engage attention-based view theory to develop a conceptual model to investigate whether financial resource building effort via sources of finance are able to result in SME performance. If the theoretical and conceptual model analysis confirm the above mentioned hypothesis, we can conclude that financial resource building effort by SMEs have wrongly been disregarded, which we anticipate to initiate further standpoint of studies.

Keywords: *Attention-Based View, Financial Resource Building Effort, Performance, SME*

I. INTRODUCTION

The idea of financial resource building effort is simple. It assumes that there are various sources of finance that firms can tap into and that their differential efforts in doing so determines the heterogeneities in their financial resource availability De Clercq and Zhou 2014). In this sense, financial resource building effort is about attention which is defined in terms of time and or effort, energy and commitment that a firm pays towards tapping into various sources of finance. The argument that the notion of financial resource building effort puts forward is this: It's not about whether firms have access to finance or have challenges in accessing funds or not. But rather, how much attention (effort) they pay toward building their financial resource base from the various sources of finance amid the challenges that confront them, if any, is what matters.

Based on the review of prior literature most SMEs have sourced for financial resources from various sources of finance in order to achieve their business performance (Demirguc-Kunt et al., 2013; Ayyagari et al., 2011; Gupta et al., 2013). This has given credence particularly research on SMEs financing. Financing SMEs performance has become more important topic and has attracted major scholarly academic researchers to explore the field. However, over the years empirical studies that have attempted to explore financing SME performance field have been centred on access to finance (e.g. Wiklund and Shepherd, 2005; Osei-Assibey et al. 2012; Demirguc-Kunt et al., 2013; Ayyagari et al., 2011), financial structure (e.g. He and Baker, 2007; Borgia and Newman, 2012; Psillaki & Daskalakis, 2009) and financial factors (e.g. Michaelas, Chittenden, and Poutziouris, 1998; Hussain et al. 2006; Wu et al. 2008 Haileselasie Gebru, 2009). Nonetheless, in the field of financing SME performance there is a dearth of empirical studies that focus attention on financial resource building effort. SMEs financial resource building effort has become an important research matter to explore as justify by (Greve, 2008; De Clercq and Zhou, 2014). Attention on SME financial resource building effort is the main driver that determines its financial availability which in turn trigger performance. However, this statement is in line with Ocasio (1997) opine that attention in terms of time, energy, commitment and effort put in building financial capital has received essential field of research and at the same time has provided significant insight in explaining the financial success of firms. Review of the existing literature suggests that attention on building financial resource is still at an infant stage. According to Greve (2008) there is very limited research on firm financing particularly attention on financial resource building effort. However, following the path leading to SME financing we support the reanimation of the role and significance of the financial resource building effort on SME's performance.

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Attention-Based View Theory (ABV)

This current paper relied on attention-based view (ABV) theory of the firm propounded by Ocasio (1997) to explain financial resource building effort phenomenon. The focalisation of ABV is grounded on how attention in organisation shapes organisational financial adaptation (Ocasio and Joseph, 2005 and Barnett, 2008). The ABV has it root from strategic management research which gives precise model for examining into drivers and performance of organisation attention building effort (Joseph and Wilson, 2017). Explicitly, ABV regards attention given by management is essential in explaining why organisations concentrate their efforts on specific activities among others, and managerial attention in turn facilitates priorities, rules and regulations outlined by the organisation (Joseph and Wilson, 2017: Barreto and Patient, 2013; Ocasio, 1997). The lens of ABV provides a critical strategic agenda of a firm stimulated by attention building effort, the alternative actions and issues that guide resource allocation, utilisation and subsequent deployment within the firm (Ocasio and Joseph, 2005). However, any dynamic and visionary firm considers firm performance at the centre of strategy, and this strategic action is contingent on the effort made by managers in allocation of attention to combat problems and open up opportunities among different competing interests (Joseph and Ocasio, 2012; Crilly and Sloan, 2014). This study travel behind Ocasio (1997) defining attention as "noticing, encoding, interpreting and focusing of time and effort by organisation decision-makers on both problems and solutions". The notion of the organisation to distribute and regulate attention among decision-makers is underpinned by three principles: (1) focus of attention: indicates that the action of decision-makers is influenced by issues and answers they focused their attention on (2) situated attention: indicates that whatever issues and answers decision-makers focus attention on, what they do, is contingent on the specific context or condition they find themselves in (3) structural distribution attention: indicates what specific circumstance decision-makers confined themselves in and how they resort to it, rely on how the organisation resource, rules and social interaction administer and control distribution and allocation of issues and answers.

Accordingly, March and Olsen (1976) outline attention structures as economic, social and cultural layers that rule the sharing of time, effort and attentional focal point of the organisational decision makers including their decision making activities. The attentional structures are being determined under four regulators: resource, rules of the game, players and structural position. Issues and answers within the attentional structures denote the cognitive and cultural collection of plans accessible by decision-makers in the organisation to make sense (issue) and to respond to (answers) environmental stimuli. The component of issues organisation encounters are exhibited in problems, opportunities, and threats that defined the agenda of the organisation, which organisational decision-makers are obliged to respond or abandon (Nigam and Ocasio, 2010). Nevertheless, attention processing issue is made up of two categories: top-down and bottom-up (Nigam and Ocasio, 2010; Ocasio, 2011). Top-down processing denotes schema-based driven attentional process conditioned by manager's cognitive capabilities which influence the organisational members as to where resource, time, energy and effort are to be invested (Dutton and Jackson, 1987). Bottom-up attentional processing on the other hand highlights stimuli-driven over structure where manager's attention to take actions depends on environmental signals. At this juncture emergent is a key factor protected predominantly by local demand of the situation instead of general belief (Shepherd, Memullan and Jennings, 2007).

Though ABV has been extensively used in the strategic management sciences taking its fundamental root and tradition in organisational theory, however, it is been strongly criticised on the grounds that it is unable to develop a cohesive perspective of firm behaviour. Different scholars dwelled on different aspects of attention allocation and restructuring but forfeit other aspects (Joseph and Wilson, 2017).

II. LITERATURE REVIEW

Small and Medium Enterprise Financing

Firm financing consists of array of systems that seek to provide capital for the development and performance of firms (Abe et al, 2015). Per the census conducted by International Finance Corporation (IFC, 2015) indicates that 90.2 percent of firms do not rely on formal sources of finance. Only 7.7 percent use capital obtained from institutional source and 2.1 percent from non-institutional source. Biswas (2014) indicates that capital availability at competitive rate has effect on funds use by firms in their operational activities. The major source of external finance is the bank. However, studies reveal that it is the most restricted and costly for firms particularly SMEs and at the same time vital source of finance to augment asset acquisition and long term project (Biswas, 2014; Abe et al, 2015). Accordingly, SMEs largely depend on internal and informal sources of finance due to the greater impediments they usually encounter in accessing formal source of finance. Notably, owner-managers of SMEs are the central element when it comes to financial decisions. Though certain unforeseen circumstances may affect their choices of financing preference and practices. Thus, the firm owner's distinctive characteristics reveals the kind of financing preference and practice (Berger and Udell, 2001). Indeed, it is important to note that some regulatory bodies and government policies rather supress firms financial requirement from financial sources most especially in the developing economies (Lucy et al, 2016). This has created financing gap between formal and informal finance sources. Any attempt to change between these two financing sources is often uneconomical for a firm development and performance (Biswas, 2014). For firms to realise their potential growth performance, this funding gap must be bridged (Abe et al, 2015). Filling this gap calls for attention on financial resource building effort on financial decisions made by decision-makers of the firm.

The Effect of Specific Sources of Finance on SMEs Performance
The role of finance has been purported as a critical element towards SME performance.

Most often SMEs need to raise funds during their life cycle to achieve three basic purpose namely, cash flow challenges, capital investment, and lengthy product development cycle (Gudov, 2013). At every developmental stage of a firm there is a need for financial resources to meets its operations demand and expansion. Sources of finance for every firm comes from either internal or external or both (Ayyagari, 2010; Gudov, 2013). Internal sources include retained profit and self-financing. These are suitable sources of finance to SMEs, however, their availability are not dependable (Lerner, 1995). The external source of finance is basically divided into debt and equity dichotomy. Debt in the form of bank loans, family and friends and government funding while equity also comes from venture capital and business angels. There is a consensus in the literature that financing gap confronting SMEs might be overcome by intensify effort in accessing internal financing sources (Mason and Harrison, 2004). As Reynolds (2011) buttresses the data from the Panel Study of Entrepreneurial Dynamic (PSED) indicates that entrepreneurs prefer to use internal sources of finance to external sources. Indicatively, enterprise growth largely depends on financing from the entrepreneurs own personal savings as self-financing and other individuals closer to them be it family members, friends and other associates (Mason and Harrison, 2004; Eakin et al, 1994; He et al. 2007).

On the other hand, external source of finance fundamentally consists of all sources of finance obtained from outside the firm (Ayyagari et al., 2010). In sharp contrast, Reynolds (2011) indicates that firms get their formal financing after they have legally registered to become an entity. The external source of finance could be in the form of team equity such as venture capital, business angels, supplier's credit, bank loans, government agency loans, and any other loans or debts. Several past research indicate that even the less control-averse owners of firms opt for debt to pursue growth rather than equity. This is because debt brings a lower level of interruption and at the same time reduces the risk of losing controlling power over the business than equity (Daskalakis et al., 2013; Luukkonen et al., 2013). The next section highlights the effect of specific sources of finance on SME performance.

Retained Profit
Retained profit refers to the percentage of the net profit not spent but retained by the firm to reinvest into its core business. This source of finance is only available for firms which have been operating for more than a year (Habib, 2016). Empirically, a study conducted by Holtz-Eakin et al. (1994) reveal that retained profit plays a direct role in the survival of the entrepreneurial activities. The possibility of a firm to continue remain in existence is largely determined by the profit accumulated by the business (Holtz-Eakin et al., 1994). Another empirical evidence also suggests that the size of the enterprise retained profit is heavily related to the size of the enterprise. In this sense the amount of retained profit obtained by the enterprise plays a positive role in the enterprise performance (Hvide and Moen, 2010). In another study, Khander et al. (2013) in their survey into financing constraints in Bangladesh opine that lack of finance has the tendency to diminish firm retained profit. This revelation shows a significant deprivation of financial access by firms. Any economy that suffers from firms financing programmes or provide inadequate financing activities is liable of jeopardise its firm profit margin (Tanaka and Molner, 2008).

Nevertheless, Sexton and Landstrom (2000) argue that firm profitability is associated with sustainable performance. A firm's profitability implies the availability of financial resources. Accordingly, Marries (1967) reveals that there is a trade-off between performance and profit in the sense that for firm to perform it should earn additional profit. In addition, Fitzsimmons et al. (2005) support the assertion made by Marries (1967) and further argue that it is extremely hard to imagine sustained performance of an enterprise without earning profits. With regard to SMEs due to their risky-nature, typically prefer internally generated funds to formal external sources of

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funds for their endeavours (Fort et al., 2013; Van Caneghem and Van Campenhout, 2012; Daskalakis and Psillaki, 2008). However, the ability of a firm to plough back profit maximises their control they keep over the business. Moreover, it is also a strong signal of commitment to outside investors or finance providers (Fort et al., 2013).

Personal Savings

It is estimated that the vast majority of owner-managers contribute personal funds alongside with sweat equity into their business. This is the most essential, and frequently source of finance for firms particularly SMEs (He et al. 2007; Kent Baker et al., 2017). The inability on the part of SMEs owner-managers to obtain formal financing such as commercial bank loan due to information asymmetry, moral hazard and adverse selection make them rely largely on their past savings (Osei-Assibey, 2013). Accordingly, Zabri (2013) indicates that in Malaysia 34 percent of SMEs utilise their own personal savings as source of finance to run their businesses. Generally it is common practice that at the inception stage of business development entrepreneurs normally rely on personal savings for their firm's survival. This is the cheap form of financing which is readily available (Roper, 1998; Borgia and Newman, 2012; Kent-Baker et al, 2017). Using personal savings as source of finance to enhance business operations indicates that the entrepreneurs put more than just their financial resources on the line, but also they are putting their future life at risk particularly should the business gets into difficulties (Logenecker et al., 2008; Burk & Lehmann, 2004). Investing the entrepreneur personal savings increases the financial resource prospects of the business and at the same time maximises the control the entrepreneur keeps over the business (Logenecker et al., 2008). Also, it is a strong signal of commitment to outside investors or providers of finance (Roper, 1998). It is important that an entrepreneur has some personal assets in the business, which normally derives from personal savings (Logenecker et al., 2008; Daskalakis, et al., 2013). Accordingly, there is diligent in the management and control over the business (Burk & Lehmann, 2004; Riding et al, 2012).

Family and Friends

While banks play a significant role in SME formal financing, informal source of finance particularly funds obtain from family and friends, relatives and other associates dominate in the informal financing of SMEs (Hussain et al, 2006). Besides bank loan, family, friends and fools financial network (3Fs connection) contribute largely to SME financing. A study indicates that almost 35 percent of SMEs source finance come from family and friends, relatives and other associates (Rand, 2006). In a comparable studies by Rozali et al. (2006) indicate 23.6 percent. This source of finance comes from common friends and family members who are supportive of the business idea and contribute in the form of loan, investment or complete gift either directly or indirectly into the business (Kuma and Rao, 2015). This source of finance can be quicker and cheaper to arrange compared to standard commercial bank loan. Its interest and repayment terms may be more flexible than a bank loan (Hussain et al, 2006; Beck et al., 2008). However, borrowing in this way can add to the stress confront by an entrepreneur particularly should the firm gets into difficulties. Additionally, Rajan (2009) points out that the dependence of SMEs on family and friends in obtaining capital to support their financial resource base is important to owner-managers. Further, family and friends financing provide entrepreneurs an alternative financing making decisions about the capital structure of their businesses. Indeed, this gives a concrete support to the empirical evidence that SMEs particularly small enterprises their sources of finance are dominated by family and friends for their operations (Hussain et al, 2006; Beck et al., 2008; Kent Baker et al, 2017).

It is important for SMEs owner-managers who use Friends and family financing to consider that the request for their money should be taken in the business-like manner same as requesting from banks or investors (Kuma and Rao, 2015). Also, it should be further noted that if the financial aid to the business owner from family and friend is in the form of loan it is advisable that a promissory note should be signed by both parties indicating the terms and conditions of the loan. Furthermore, financial assistance should be solicited from friends and family who have the legitimacy to offer help. Evidence abounds that owner-managers who are unable to repay their friends and family loans stand the risk of damaging both business and personal relationships (Logenecker et al., 2008; Burk & Lehmann, 2004).

Suppliers Credit

Another source of finance that SMEs can take advantage of is supplier's credit. Supplier's credit is considered as an essential short-term informal external source of finance to both established large scale and small scale firms (Seifert et al, 2013). It is a significant component of working capital in the form of firm inventories provided by suppliers who take payment later (Barrot, 2014; Aktas et al., 2015). Barrot (2014) reports that firms that are disabled to access finance from the established financial institutions mostly depend on supplier's credit. Likewise,

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Klapper et al. (2012) indicate that even large established creditworthy companies use supplier's credit and receive favourable terms from suppliers. Suppliers have the greater enthusiasm to extend trade credit to SMEs simply because the suppliers are more abreast with SMEs operational information as compare to financial institutions (Cunat & Garcia-Appendini, 2012). Indeed, sometimes suppliers with access to readily available and sufficient financing extend trade credit to customers with the optimism of enjoying future profits that will come out of the credit (Barrot, 2014). Accordingly, in this sense, there is a win-win scenario created by both customers and suppliers. In contrast McMillan and Woodruff (1999) study supplier's credit in Viet Nam and reveal that if suppliers are limited in number firms are less likely to enjoy suppliers credit. On the other hand, when firms have many suppliers at hand the tendency to enjoy supplier's credit benefit is also high. Additionally, they further report that when there is existence of good rapport between customers and suppliers it has a positive impact on the firm performance with time. It is acknowledged that supplier credit plays an important role in firms financing. Notably, it offers the firm the opportunity to invest money it would have otherwise paid to suppliers to meet their pressing needs. (Martinez-Sola et al., 2013). It also provides operational, financial, transactional and commercial advantages to the firms (Martinez-Sola et al, 2013)

Bank Loan

Most empirical studies suggest that the main source of finance for firms is bank loan (Shaban et al., 2014; Vera & Onji, 2010; Riding et al., 2012). Bank financing is normally considered as the most frequently used source of obtaining finance for firm's performance (Norton, 2003; He et al., 2007). Several studies found that banks are the most prominent external debt finance providers for firms in both developed and developing economies (Petersen and Rajan 1994; Berger and Udell 1998). According to the European Central Bank (2011) more than one-third of SMEs have used bank loans to pursue their operations (Longenecker et al. 2012). Similarly, Riding et al., (2012) suggest that 35 percent of firms depend on bank loans through various financial institutions and approximately 25 percent through commercial bank loans. Evidence abounds that among all the financial institutions, banks financing dominate in the provision of loans to firms simply because they receive the greatest cash deposits (Shaban et al., 2014). It is evident that banks take delight in lending to large established firms with well appealing balance sheet and credit histories coupled with accumulated collateral (Petersen and Rajan, 1994; Longenecker et al., 2012). This condition can be attributed to firm size, age, ownership and management, bank requirements and lack of business strategy. Additionally, long-term firm and bank relationship is very beneficial. Empirical research amplify the notion that longer relationship between banks and firm can leads to reduction of interest rate and less likely demand for collateral which in effect enhances performance (Berger and Udell, 2001).

III. CONCEPTUAL MODEL

The primary idea behind designing conceptual model is to systematically and logically blend all the relevant components of a concept to arrive at an appropriate and workable process that can provide the ultimate best explanation of the stated issue (Brown et al., 2015). As indicated earlier financial resource building effort is most under-researched area when comes to SMEs financing (De Clercq and Zhou, 2014). As SME financing needs and choices largely depends on the size, age, ownership experience and education. It becomes necessary to design a model that can provide guidelines for identification and analysis of financing resource building effort preferences of an enterprise. The model is useful in guiding future studies on financial resource building effort preference of a firms together with firm financial literacy level and top-management commitment towards financial management. The interaction of these identified variables aid the present financial resource building effort preferences and practices. While examining these factors the effect of the nature of business environment in terms of munificence, competitive intensity, dynamism, risk-taking and innovativeness can be identified by the firm decision-makers. This can help firm decision-makers more in deciding the financial resource building effort that can adequately support firm performance in terms of growth, effectiveness and efficiency. Our opinion on the proposed financial resource building effort model suggest that the identification of these factors will help in determining the gap between existing and preferred financial resource building effort of a firm. The study review of the related prior literature revealed that there is financing gap for SMEs. However this gap can be studied and overcome by putting much attention in terms of time, energy, effort, and commitment on financial resource building by decision-makers of the enterprise. The proposed comprehensive conceptual model for financial resource building effort via source of finance on performance is illustrated in figure 1

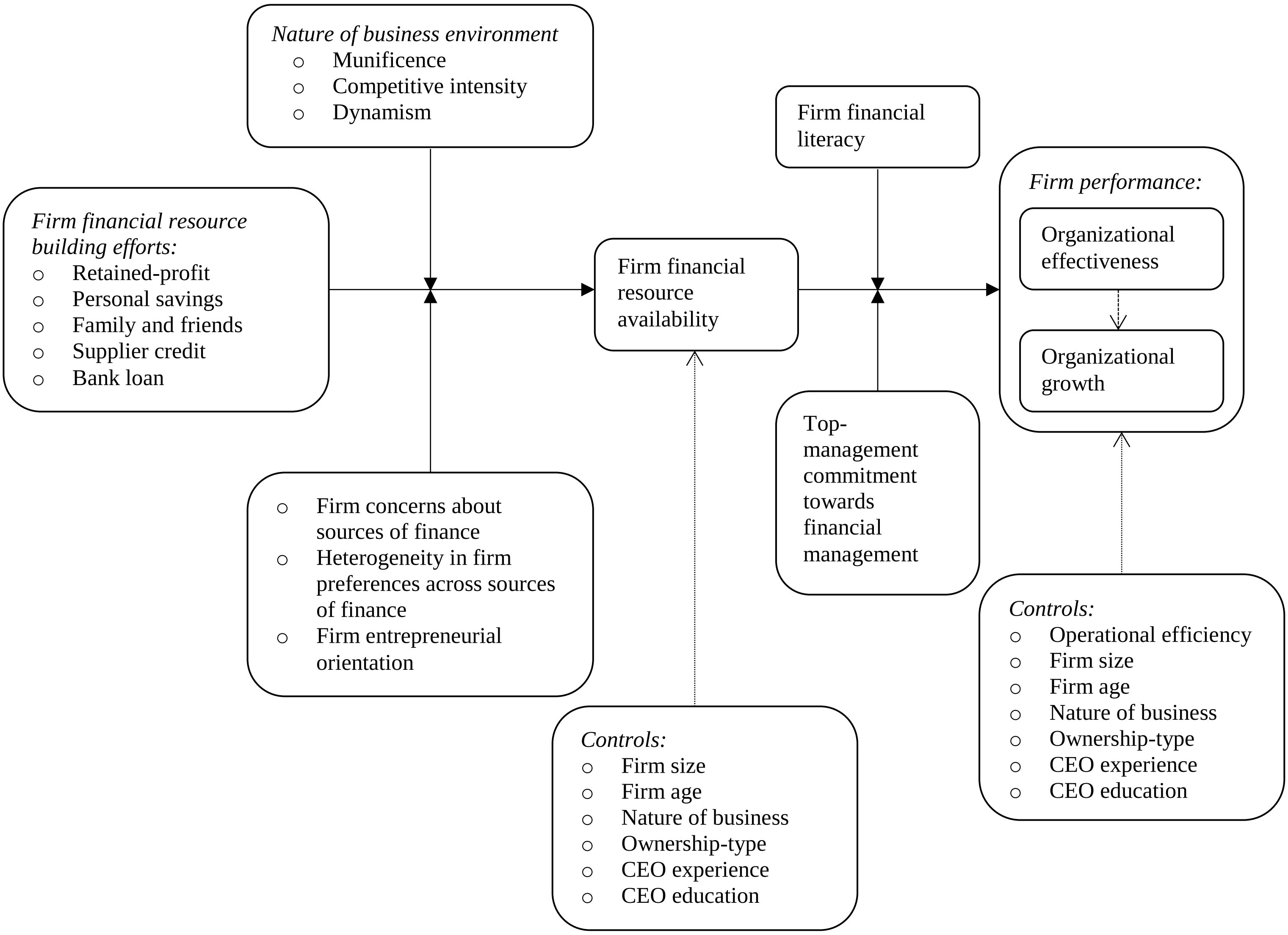

Figure 1. Proposed model of firm financial resource building effort via sources of finance on performance

IV. CONCLUSIONS

Firms are counted among the major drivers of economic growth and development of every country. In spite of the fact that they contribute significantly to economic growth and development, firm's particularly small and medium enterprises (SMEs) normally face financing constraints with reference to access to finance and other challenges in accessing funds. Therefore there is a dire need to study what the firms themselves can do to improve their financial predicament. We do believe that the foregoing argument not only justify the initial question asked but also prove the great significance of attention on firm financial resource building. With this agenda the study employed attention-based view theory to propose a conceptual model to analyse financial resource building effort via sources of finance by firms and integrate all the important variables of financial resource building effort towards superior firm performance. However, the study makes a significant theoretical contribution by moving the existing research focus on access to finance as a challenge to SMEs to a different paradigm, whereby we examined what the SMEs themselves can do about their financial situation. In the field of literature, the study contributes by addressing the existent financing gap and makes attempt to dissect the problem of financial constraints in the light of building financial resources effort from the various sources of finance. The final findings of the study are quite promising, as the upcoming study is dependent on the propose model will add new dimensions to the body of knowledge of SME financing. Additionally, it will help us to analyse the various sources of finance both internal and external within which financial resource building effort can effectively manifest. Thereby the study will accomplish manifold objectives of SMEs financing. The proposed model is then supposed to outline the potential sources of SMEs finance and will conduct further investigation of all the potential variables of the existent gap in SMEs financing.

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