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Does Access to Credit Impact the Performance of Small and Medium Enterprises?

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ABSTRACT

The study examined whether access to credit impact the performance of Small and medium enterprises in Ghana. Survey methodology was used to collect data for the study through the administration of questionnaires. Purposive sampling technique were used to arrive at the sample of 65. Data was analysed through the use of the Predictive Analytics Software (PASW) version 20. With respect to whether access to credit impact the performance of Small and medium enterprises (SMEs), majority of the respondents confirmed that access to credit is an important element for performance and sustainability of the firm which was evident through sales growth, customer base and increase in profit margin. It was observed that there was a significant positive relationship between access to credit and performance of SMEs. The researcher used Pearson’s correlation coefficient to find the relationship between access and performance of small and medium enterprises and the finding revealed a positive relationship 0.368. This shows strong relationship between access to finance and performance of SMEs.

Keywords: Access to Credit, Performance of SMEs, Small and Medium Enterprises

Introduction

This study seeks to examine whether access to credit impact the performance of Small and Medium Enterprises. Small and medium enterprises (SMEs) play a crucial role in economic development, both in developing and developed countries. The contribution of SMEs to the economy can be seen through the value added every year generated by SMEs such as employment, export participation, poverty alleviation, and women empowerment (Nguyen, Gan, & Hu, 2017). Most banks in Ghana do not prioritize doing business with Small and medium enterprises (SMEs) since they consider them to be high-risk businesses. Small and medium enterprises (SMEs) are considered high-risk businesses because they lack the necessary collateral to serve as a security for loans. This has been a major problem to Small and medium enterprises (SMEs) and as such have it difficult in getting enough support to operate and as a result depend on personal savings and support from family and friends (Yoshino and Taghizadeh-Hesary 2015). In Africa, the failure rate of SMEs is 70% to 80% out of every 100 companies due to lack of access to credit (Cant and Ligthelm, 2003). The lack of access to credit by Small and medium enterprises (SMEs) has undermined the role of Small and medium enterprises (SMEs) in the economic development of most African countries like Ghana.

Small and medium enterprises (SMEs) are considered as an engine of growth. This has indeed been observed from available survey data as access to credit has consistently ranked as one of the top constraints cited by firms (Fowowe, 2017)**.** Small and medium enterprises (SMEs) financial constraints limit their investment opportunity and stagnant growth. Access to finance is widely perceived to an essential factor for firms, and especially Small and medium enterprises (SMEs) to maintain their daily business operation as well as to achieve long term investment opportunities and development targets (Onyiego, Namusonge, & Waiganjo, 2017).

A lot of studies have been undertaken in this area of research in Ghana, among the studies done include Avevo, 2016 studied the challenges faced by Small and medium enterprises (SMEs) when accessing fund from financial institutions in Ghana. Bieke & Abor, 2006 investigated small business financing initiatives in Ghana. Prempeh, 2015 studied problems of financing SMEs in Ghana using Sunyani municipality as a case study. World bank, 2012 studied access to finance for Small and medium enterprises (SMEs) in Africa. Fuseinu, 2015 examined Small and medium enterprises (SMEs) access to credit in Ghana; determinants and challenges. Quartey, Turkson, Abor & Iddrisu, 2017 examined financing the growth of SMEs in Africa; what are the constraints to SME financing within ECOWAS. Quartey, 2008 studied financing Small and medium enterprises (SMEs) in Ghana, Mensah, 2004 studied a review of Small and medium enterprises (SMEs) financing schemes in Ghana. Kwabena and Ansah, 2012 examined the determinants of Small and medium enterprises financing by financial institutions in Ghana. Nyanzu & Quaidoo, 2017 studied access to finance constraint and SMEs functioning in Ghana. Nkuah, Tanyeh & Gaeten, 2013 examined financing Small and medium enterprises (SMEs) in Ghana challenges and determinants in accessing bank credit. Quainoo, 2011 examined the impact of loans on Small and medium enterprises (SMEs) in Ghana. Arthur, 2015 studied the constraints in credit accessibility among Small and medium enterprises (SMEs) in Ghana. None of the above studies undertaken determined the relationship between access to credit and the performance of Small and medium enterprises (SMEs) in Ghana. In this study the researcher seeks to fill this gap by carrying out a survey to find access to credit and the performance of Small and medium enterprises (SMEs) in selected SMEs in Nkawkaw municipality.

Literature Review

Definition of Small and Medium Enterprises (SMEs)

An Enterprise is an organization that undertakes an economic activity in any form with the view to make profit. This includes, in particular, self-employed persons and family businesses engaged in crafts or other activities, and partnerships or associations regularly engaged in an economic activity (EU 2003). The term SME is used to describe businesses in the private sector. There is no single definition for SMEs because of its diversity of businesses. What exactly SME means is dependent on the number of employees and business' turnover and assets. Quaye, Abrokwah, Sarbah, & Osei, 2014 posited that small business is regarded as one whose scale of operation is less than the industry average. A lot of institutions and well-known academicians have defined Small and medium enterprises differently and some have been criticized by others.

Bolton Committee (1971) was the first institution to try and produce a generally accepted definition for SMEs. They came up with two types of definition from two different points of view namely “economic” and “statistical” definitions.

Under the “economic” definition, a firm is classified as small if it meets the following criteria:

I. It has a relatively small portion of the market share.

II. It is managed by owners without any formal management structure.

III. It is independent and do not form part of a larger organization

When it comes to the “statistical” definition, the following criteria are used for classification.

I. measuring the size of the small firm sector and how much it contributes to GDP, employment, exports etc.;

II. comparing the extent to which the small firm sector’s economic contribution has changed over time;

III. Applying the statistical definition in a cross-country comparison of the small firms’ economic contribution.

The European Commission (EC) defined Small and medium enterprises (SMEs) according to the number of employee’s organizations has: firms with 0 to 9 employees - micro enterprises, 10 to 99 employees - small enterprises; 100 to 499 employees - medium enterprises. Jordan, Lowee & Taylor, (1998) define Small and medium enterprises (SMEs) as organizations with less than 100 employees as well as with a turnover of €15 million. Michaelas, Chittenden, & Poutziouris (1999) defined Small and medium enterprises (SMEs) as employee’s less than 200 employees and López and Aybar (2000) considered companies with sales below €15 million as small. Department of Trade and Industry, 2001 defined Small and medium enterprise (SMEs) as an independent firm, managed by its owner or part-owners and having a small market share. The UNIDO also defines SMEs in terms of number of employees by giving different classifications for developed and developing countries (Elaian, 1996). The definition for developed countries is given as follows:

Large - firms with 500 or more employees; Medium - firms with 100-499 employees; Small - firms with 99 or less employees. The classification given for developing countries is as follows: Large - firms with 100 or more employees; Medium - firms with 20-99 workers; Small - firms with 5-19 workers; Micro - firms with less than 5 workers. Ghana Statistical Service (GSS) considers firms with fewer than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. Ironically, the GSS in its national accounts considered companies with up to 9 employees as SMEs (Kayanula & Quartey, 2000). National Board for Small Scale Industries (NBSSI) defined Small and medium enterprise (SMEs) as a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding GH¢10million.The Ghana Enterprise Development Commission (GEDC), on the other hand, uses a 10 million Ghanaian cedis upper limit definition for plant and machinery. It is important to caution that the process of valuing fixed assets poses a problem. Secondly, the continuous depreciation of the local currency as against major trading currencies often makes such definitions outdated (Kayanula and Quartey, 2000). Steel & Webster (1991), and Osei, Baah-Nuakoh, Tutu & Sowa (1993) used an employment cut-off point of 30 employees to defined Small and medium enterprises (SMEs). Osei, Baah-Nuakoh, Tutu & Sowa (1993), however, classified small-scale enterprises into three categories. These are: (i) micro - employing less than 6 employees; (ii) very small - employing 6-9 employees; (iii) small - between 10 and 29 workers. Regional Project on Enterprise Development Ghana manufacturing classified firms into: (i) micro enterprise, less than 5 workers; (ii) small enterprise, 5 - 29 workers; (iii) medium enterprise, 30 – 99 workers; (iv) large enterprise, 100 and more workers (Teal, 2002).

Small and medium enterprises (SMEs) are businesses that are basically privately owned and operated, with a small number of personnel, and a relatively low volume of sales (Nkuah, Tanyeh and Gaeten, 2013). The European commission (2003) defines Small and medium enterprises (SMEs) as enterprises which employ fewer than 250 persons and/or have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. Thus, the definition of SME varies and is dependent upon whose point of view (Taylor and Adair 1994). The Ghana Statistical Service (GSS) defines small businesses as enterprises that employ less than 10 persons while those that employ more than 10 people are classified as Medium and Large-Sized Enterprises. Alternately, the National Board for Small Scale Industries (NBSSI) in Ghana utilized both the 'fixed asset and number of employees' criteria to define SMEs. According to the NBSSI, enterprises with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) and not exceeding 10 million Cedis (US$ 9506, using 1994 exchange rate) are considered as Small and medium enterprises (SMEs). Hence, for this study, SMEs are enterprises that employ not more than 50 people. The choice of this definition is reflective of the situation in Ghana and allows for a wider inclusion of many enterprises in the study (Nkuah, Tanyeh & Gaeten, 2013)

Definition of Access to Credit

There is no universal definition of access to credit because there are different dimensions of what constitute access to credit. According to Claessens (2005), access to credit can be defined considering three factors: firstly, the availability of the financial service; secondly, the price or cost of the credit available, both explicit and opportunity costs; and thirdly, the range, type and quality of credit being offered. Access to credit has been defined as the 'absence of price and non-price barriers in the use of financial services' (World Bank, 2008). In other words, access to finance refers to the availability of supply of quality financial services at reasonable costs

(Claessens & Tzioumis, 2006). Ganbold, (2008) explains that access refers to the supply of financial services, whereas use of the services is determined by demand and supply. Improving access to credit means improving the degree to which financial services are available to all at a fair price (Ganbold, 2008).

Access to Credit and Performance of SMEs

Although it is difficult to construct the measures for firm performance in the SME sector, many studies have attempted to do this and found that greater sales and profits are associated with greater access to credit (Topalova, 2004). In addition, firms with increasing sales and increasing sales turnover ratios would be expected to have less credit constraints (Pandula, 2011). Financial performance is the results of a firm's policies and operations in monetary terms. Firm performance can be measured with different indicators such as profitability, growth in sales, increase in stock levels and increase in value of fixed assets. In addition, firms also have their own performance indicators Meyanathan and Munter (1994). Obwogi (2006) noted that financial dimension of performance is critical for both large and small enterprises. To define entity performance, the study by Melville, Kraemer and Gurbaxani (2004) focused on the impact of technology on various business functions. Firstly, when the firm has invested in technology, the thinking is that it should be enjoying reasonable production costs. Secondly, the entity must be able to at least compete effectively in the market, and thirdly, the entity should be able to improve its revenue base. Research has also introduced the entity's marketing performance in an attempt to broaden the definition of performance, for example Homburg and Pflesser (2003), Hooley et al. (2005), Wong and Merrilees (2007) and Hove et al. (2014). In this study, performance was viewed as a unidimensional construct and was measured through objective performance dimensions, namely revenue size, revenue growth, average returns, growth in returns and the entity's market share.

Financial performance measures are expressed in monetary units. According to Winfred and Curry (1994), computation of financial ratios can be grouped into five broad categories namely; liquidity, leverage, turnover, profitability, and valuation ratios. Performance measurement gives feedback on the effectiveness of plans and their implementation. Availability of finance determines the capacity of an enterprise in a number of ways, especially in choice of technology, access to markets, and access to essential resources which in turn greatly influence the viability and success of a business (Wole, 2009). Wole further states that securing capital for business start-up or business operation is one of the major obstacles every entrepreneur faces particularly those in the SMEs sector. Within the SMEs sectors lack of access to credit is one of the major factors accountable for hindering the emergence and growth of their businesses. Banerjee and Duflo (2004) studied detailed loan information on 253 small and medium –size borrowers from a bank in India both before and after they became newly eligible for the program. Specifically, the size definition of the program was changed in 1998 which enabled a new group of medium-size firms to obtain loans at subsidized interest rates. Naturally these firms began to borrow under this favored program, but instead of simply substituting subsidized credit for more costly finance, they expanded their sales proportionately to the additional loan sources which suggest that these firms must have previously been credit constrained.

Emperical Review on how Access to Credit Impact Performance of SMEs

Fowowe, (2017) studied the effects of access to finance on the growth of firms in African countries. It came out that the access to finance constraint exerts a significant negative effect on firm growth.

Onyiego, Namusonge, & Waiganjo, (2017) examined the effects of access to finance on financial performance of SMEs in Mombasa County Kenya with the aim of establishing the relationship between access to finance and financial performance of SMEs. The regression coefficient positive and significant t=2.954, beta 0,191 p- value -0.003. The hypothesis for the study was that access to finance has no significant effect on financial performance of SMEs in the hotel industry in Kenya. The study findings based on p- value 0.003 which is lower than 0.05 implied rejection the null hypothesis which states that access to finance has a significant effect on financial performance of SMEs in Mombasa County in Kenya.

Muguchu, (2010) who investigated the relationship between access to credit and financial performance of Small and medium enterprises in Nairobi, Kenya found that there was a positive relationship between access to credit and ROA.

Prempeh (2015) use Sunyani Municipality as a case study to investigate the problems of financing SMEs in Ghana. The Researcher has concluded that many studies have shown most of the SMEs lack access to finance for starting, operating and expanding their businesses, therefore access to finance is always quoted as a major constraint for all SMEs and can seriously affect their ability to survive, upgrade the technology in their business, increase their capacity and even in many cases, expand their market, improve management system or increase productivity as well as profitability. For SMEs to have impact on the economy, access to finance should be a little bit easy for them because finance will help to expand their businesses to boost the economy.

Abor & Quartey, (2012) studied issues in Small and medium enterprises in Ghana and south Africa. They concluded that SMEs in Ghana have been noted to provide about 85% of manufacturing employment of Ghana. They (SMEs) are also believed to contribute about 70% to Ghana’s GDP and account for about 92% of businesses in Ghana.

Methodology

The study examined whether access to credit impact the performance of Small and Medium Enterprises. Survey research methodology was used. Pearson's correlation coefficient was also tested. All business owners of small and medium enterprises in Nkawkaw municipality were under consideration. The total population for the study were one hundred (100) business owners. This is made up of business owners who have applied for credit. The business is categorized into: Chop bar operators/fast-food-operators/restaurants, Textile/Leather-Works, Woodworking, Metal Fabricating, Repair Services, Auto repairs, chemical sellers/pharmacies, and retailers, spare part dealers, motorbike dealers, hair dressers/barbers and sachet water producers, supermarkets/provision shops. Sixty- six (66) small and medium enterprises are selected from the target population to participate in the study because they had a workforce above twenty. Purposive sampling method was used to obtain the sample size for the study.

RESULTS AND DISCUSSIONS

Of the sixty-six (66) copies of questionnaire administered to the business owners of the SMEs, sixty-five (65), representing 98.48% were filled and returned, while one (1), representing 1.54% were not returned.

Table 1: Examining the extent to which access to credit impact the performance of Small and medium enterprises (SMEs)

Access to credit and performance of (SMEs)	**S A**		**A**		**UN**		**D**		**S D**	
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
1.Access to credit is an important element for	30	46.15	15	23.08	5	7.69	10	15.38	5	7.69

performance and sustainability of the firm										
2. Sales growth is associated with access to credit	38	58.46	10	15.38	10	15.38	7	10.77	0	0
3.Access to credit impact our profit significantly	35	53.85	10	15.38	10	15.38	5	7.69	5	7.69
4.Access to credit has increase our customer base	50	76.92	10	15.38	5	7.69	0	0	0	0
5.Increase in stock levels is associated with access to credit	40	61.54	10	15.38	15	23.08	0	0	0	0
6.Increase in value of fixed assets is influenced by access to credit	45	69.23	4	6.15	12	18.46	1	1.54	3	4.62

Source: PASW Questionnaire Response

Table 1 shows responses and the respective percentages the respondents expressed with respect to whether the access to credit impact the performance of (SMEs). From the table, it would be deduced that the respondents strongly agreed, agreed, undecided, disagreed and strongly disagreed with the statements under access to credit and performance of (SMEs). This is discussed below:

With respect to whether access to credit is an important element for performance and sustainability of the firm, 7.69% strongly agreed, 7.69% agreed, 7.69% was undecided, 46.15%

disagreed, and 30.77% strongly disagreed. Considering whether sales growth is associated with access to credit, 58.46% strongly agreed, 15.38% agreed, 15.38% undecided, 10.77% disagreed and none strongly disagreed. Regarding if access to credit have impact our profit significantly, 53.85% strongly agreed, 15.38% agreed, 15.38% undecided, 7.69% disagreed and 7.69% strongly disagreed. With respect to whether access to credit has increase our customer base, 76.92% of the respondents strongly agreed, 15.38% agreed, 7.69% undecided, none disagreed and none strongly disagreed. Regarding if increase in stock levels is associated with access to credit, 61.54% strongly agreed, 15.38% agreed, 23.08% undecided, none disagreed. With respect to whether increase in value of fixed assets is influenced by access to credit, 69.23% strongly agreed, 6.15% agreed, 18.46% undecided, 1.54% disagreed, 4.62% strongly disagreed.

In summary, regarding if access to credit impact performance of SMEs, it was confirmed that access to credit is an important element for performance and sustainability of the firm which was evident through sales growth, customer base and increase in profit margin. It was observed that there was a significant positive relationship between access to credit and performance of SMEs. This is supported by studies of (Abor & Bieke, 2005; Fowowe, 2017) who found that majority observed that there was a significant positive relationship between access to credit and performance of SMEs.

Table 2 Test of Correlation between Access to credit and Performance of SMEs

Correlations		**Access to Credit**	**Performance of SMEs**
Access to Credit	Pearson Correlation	1	0.386
	Sig. (2-tailed)	-	0.047
	N	65	65
Performance of SMEs	Pearson Correlation	0.386	1
	Sig. (2-tailed)	0.047	-

	N	65	65

Source: Predictive Analytic Software (PASW) output. Correlation is significant at the 0.05 level (2-tailed).

Pearson correlation of access to credit and performance R = 0.386. Result revealed the significance positive responses relation between access to credit and performance of SMEs that is 0.386. This shows moderate relationship between access to credit and performance of SMEs. This reveals that if access to credit is adequate in small and medium enterprises there can be an increase in the performance of SMEs.

Conclusion

Based on the above findings pertaining to whether Access to Credit Impact Performance of SMEs, the study concludes that access to credit is an important element for performance and sustainability of the firm which was evident through sales growth, customer base and increase in profit margin. It was also concluded that there was a significant positive relationship between access to credit and performance of SMEs.

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