The impact of finance, infrastructure and training on the performance of SMEs in Pakistan

ABSTRACT

Aims: The aim of this paper is to determine the impact of infrastructure, finance and training on the performance of Pakistani SMEs, using micro level data.
Study Design: Quantitative descriptive
Place and Duration of Study: World Bank Enterprise survey of 1247 Pakistani manufacturing SMEs is used.
Methodology: To test the hypothesis of this study, descriptive and regression analysis is used to regress firm performance variable on finance, infrastructure and training.
Results: The principle finding of this paper shows that finance is highly significant and positive relationship with SMEs performance. In comparison, infrastructure and training did not significant impact on performance of SMEs.
Conclusion: through infrastructure, finance and training, SMEs can achieve better performance.

***Keywords*:** *Infrastructure, finance, training, SMEs, performance, Pakistan.*

1. INTRODUCTION

Small and medium enterprises (SMEs) are considered to be plays asignificant role in economic growth and sustainable development because it contributes significantly to employment and alleviate poverty (Ariyo, 2005). SMEs growth is linked with formalizing of an economy. It provides employment at a lower cost since the unit cost employed is lower for SMEs than the large size firm (Rehman, *et al*, 2012). Strategically SMEs are crucial in many emerging countries, especially in Asian states. Usually, thesector of SMEs made up of beyond 90% of all firms outer the agricultural sector in the area (wattanaprutipaisan, 2003). They are the initial source to provide new businesses to the economy with anincessant supply of skills, idea and innovation (CACCI, 2003). In the world, Small and medium enterprises (SMEs) aresupported based on that they make considerablehelps to production growth, competitiveness and total economic growth.

In Pakistan SMEs are contributed to more than 95% of the total establishment and 80% of labour force is engaged in the business sector (SMEDA, 2007). In South Asia Small and medium enterprises contributed highly in terms of overall economic growth and GDP. In Bangladesh SMEs shared 50% annual to GDP and employed 82% ofentire industrial sector employment, in case of Nepal SMEs contributed to over 98% of all establishment and shared 63% to GDP, while in India SMEs shared to 30% GDP.

SMEs comprise a very large part of Pakistan's economy as 40% of their share to GDP. According to FBR of Pakistan, 3.2 million firms fall under SMEs category, shared 46.5% inexports and constitute of all 80% of non-agriculture labour force. All these evidences obviously show the crucial role of SMEs in Pakistan economic growth.

Though, due to the size, SMEs facing many obstacles that make them endangered and hamper their growth. These problems are mainly contributed to the area of access to financing, infrastructure and training (Kihimbo*et al*, 2012). All these problems, unable the SMEs to meet the challenges formedbymarkets liberalization and globalization.This lead the research question, how can SMEs performance improved by finance, infrastructure and training? this research question is answered by this empirical study. Previously very little research available on Pakistani manufacturing SMEs (Rehman, 2016; Abrar-ul-haq*et al,* 2015). For example Rehman (2016) investigated the Network alliances and firm's performance; a paneldata in Pakistan, but their study limited in case of cross sectional data study as well as by the independent variables such as finance, infrastructure and training. Similarly, Abrar-ul-haq*et al,* 2015) investigated the factors

effecting the development of SMEs in Pakistan, but they conducted only on twin cities Islamabad and Rawalpindi. So this study fills the gap by examining the impact of finance, infrastructure and training on SMEs performance in Pakistan, because the above mentioned variables are important for identifying the SMEs performance. This study based on examines the manufacturing sector of 1247 firms in Pakistan in 2014. The findings of this paper are that finance is highly significant and positive relationship with SMEs performance. In comparison, infrastructure and training did not significant influence on performance of SMEs.

The remaining paper is structured: part 2 shows past studies, part 3 consist of data and methodology, part 4 estimate OLS model, part 5 shows conclusion, policy implication, limitation and future research.

2.REVIEW OF PAST LITERATURE

2.1. Finance and SMEs performance

Access to finance is important to the existence, performance and life-blood of any entity, no matter how well they arranged(GPFI, 2011). Muneer *et al*, (2017) investigated the influence of financing on the growth of SMEs in Faisalabad area and concluded that financing has positive relationship with firm growth. Recent research of Yuliarmi*et al*, (2021) conducted a study on a sample of 203 SMEs in Indonesia, their findings indicate the SMEs financing have positive effect on SMEs performance. Usingresource-based theory of the firm, Elsenhardt and Martin (2000) revealed thataccess to finance is vital for maintaining a firm's competitive advantagesthroughbuying fixed and existing assets. Abdullahi *et al,* (2015) investigateda sample of 310SMEs in Nigeriaanalysing by descriptive statistics and Structural Equation Modelling and argued that finance, infrastructure and training have statistically significant and positive relationship with SMEs performance.In another research study lead by Weklund and Shephired (2005) hypothesized that Small and Medium Enterprises require financial assets to gain physical sources to take benefit of business opportunities and lack of physical resources impede the firm's performance. Recent study of Kersten (2017) noted that finance programs such as capital investment and employment has a positive and statistically significant influence on SMEs performance. In the prior researchaccompanied by Sha (2006) review that access to finance intensely affected the firm performance, and confirmed that firms with access to finance, will performedwell than those lack of access to financial fund. Moreover, severalresearchers such as (Chittithuworn,2011; Fatoke, 2011; Ahmad *et al*, 2012; Machirori*et al*,2012; Nabintu, 2013; Kinyiua, 2014; Ojekuku, 2014) investigated that finance has significantly impact on SMEs performance, whereas studies conducted by (Phillip, 2011; Okparra, 2011) establishedopposite findings. As a result, to show the impact of finance on the performance of SMEs the following hypothesis was framed:

Hypothesis 1: *Finance has positive effect onSMEs performance in Pakistan.*

2.2. Infrastructure and SMEs performance

Infrastructure is themechanical structure that lead and support the society, in the way of water supply, electricity nets, straits, roads, communications,drains, and also as the physical parts of interconnected system that presents product and services vital to endure, empower, or increasesocial living environments(Fulmir, 2009). Mugo *et al*, (2016) determine the impact of infrastructure on growth of SMEs in Kenya. Their findings revealed that infrastructure insignificant effect on SMEs growth.Beyeni (2002) investigatedthat decent infrastructure facilityproviding a conductive environment to SMEs forfacilitating and flourish the creation of economic growth and find that infrastructure effect the SMEs performance. Similarly, Abdullahi *et al,* (2015) investigated the link between finance, infrastructure and training and performance of SMEs in Nigeria. Studied a sample of 310 SMEs, analysing by descriptive statistics and Structural Equation Modeling and found that SMEs performance has significantly impacted by finance, infrastructure and training. In a survey carried outby Ogunmmola (2012) argued that infrastructurefor instance power,quality road network, balanced water supply, capable communication system and market are significant linkage with SMEs performance. In the recent (Rehman *et al*, 2019)reported that SMEs requires efficient infrastructures like as telecommunications, electricity, roads and other facilities. Additionally,a number of studies for example(Ahmad*et al,* 2012; Okeyo *et al,* 2014; and Amwele, 2013),found significant effect of infrastructure on SMEs performance, in contrast, (Okpera, 2011; Olugbinga,2012; Kiniyua, 2014) showed that infrastructure has noeffect on SMEs performance. Therefore, based on the aforementionedsubstantiation we formulate the following hypothesis:

Hypothesis 2: *Infrastructure significantly influence the performance of SMEs in Pakistan.*

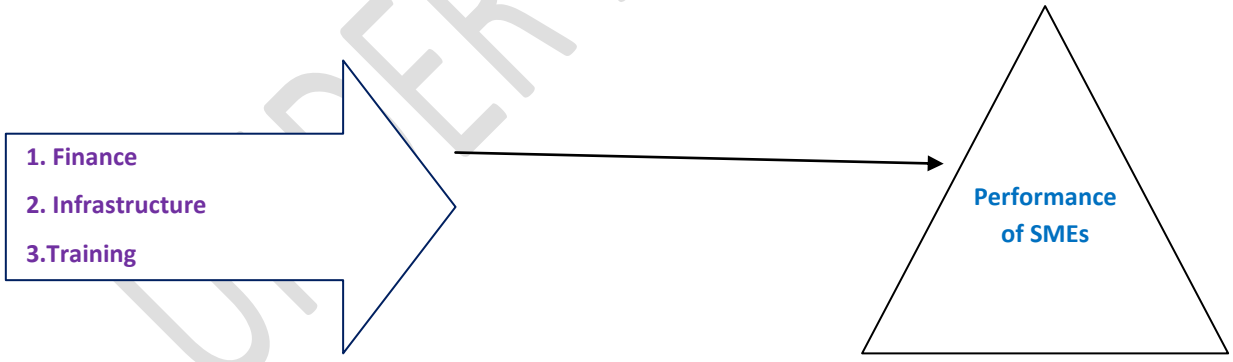
2.3.Training and SMEs performance

The impact of training programmes on the firm's performance has been studied by numerous researchers (Aragon *et al,* 2003; Garcia, 2005). Human capital theory tensed that implementing training programsincrease labour's skills and competencies, resultantlyrise firm's productivity, that indicate a significanteffect of training onSMEs performance (Snell & Dean, 1992; Lepak& Snell, 1999). Another research study of(Baver and Hotchngs, 2005) explored that solicitation of numerous training programs enhanceknowledge, competency ofbusinessesworkers, and leads innovative performance of SMEs. Similarly,Abdullahi*et al,* (2015) found that infrastructure haspositively related to SMEs performance. Furthermore, significantresources based theorists suggest that the implementation of training programmes can be considered as a tacticalgoal that make sure and developenduring competitiveness (Wernirfelt, 1984; Barny, 1986). Based onreliability of training programmes will increase and encouragingorganizations to attainintentionalgoals, and so leads to higher SMEs performance (Arther, 1994; Garcia 2005). Whileseveral researches have presented that training enactment has significant influence on the performance ofSMEs (Snill& Deans, 1992; Lepuk&Snill, 1999; Kok 2002; Ng and Seui, 2004; Garcia 2005; Makao, 2005; Del*et al,* 2009; Olsin and Eikebrok, 2009; Yahhya*et al,* 2012; Ubida*et al,* 2013; Thaimota and Morange, 2014). It had been investigated that some works ascertain opposite findings (Westhild and Story, 1997; Cosh *et al,* 1998; Ojokuku*et al,* 2014). Thus, based on the aboveliterature evidencewe formulate the following hypothesis:

Hypothesis 3: *Training significantly influence the performance of SMEs in Pakistan.*

2.4. CONCEPTUAL FRAMEWORK

This paper identified three main indicators that appear to have a relationship with SMEs performance i.e.training, finance and infrastructure. The variables were founded throughthe past literature and theoriesmanaging the study stretching from Pecking Order Theory ranted by Myers and Majlof in 1984, Government Expenses Theory introduced by Keynes in 1936 and Human Capital theory significances by Schulltz in 1961. So, this paper incorporates their mechanism and developsa model that serves as away to the study.



Explanatory Variables **Explained Variable**

Fig. 1. CONCEPTUAL FRAMEWORK

3. METHODOLOGY

3.1. Data

The data used in this paper was obtained from "World Bank Enterprise Survey"carried out by Pakistan Bureau of Statistics in 2014. The purpose of Enterprise Survey is to gain information of whatever firms practise in the private sector. The datacoversthe informationof 1247 manufacturing SMEs that indicates stratified random sampling, stratified by geographical region, size of the firm and sector. The data was taken by exhaustive interviews with owners and managers of SMEs. The dataprovidesmain information for our concerned variables, likeas finance, infrastructure, training and firm's performance as dignified by (total sales/total employees in 2014).

Conversely, the survey data having certain limitations because currentpaper uses cross-sectional data that is not enough to catch the causality between the interested variables such as finance, infrastructure, training and firm performance. In addition, for financial aspect no facts of return on assets and profitability offirm were found. Regression analysis was used to test the hypothesis under the study through SPSS 20 software.

(a) Dependent Variable

Various researchers used different indicators to measured performance of SMEs (Daft, 1998; Rauf, 2007; Kinyua, 2014). This empirical study used labour productivity as an indicator of SMEs performance that is also used by earlier researchers (i.e. Mahmood, 2008; Rehman, 2016). In the literature performance of SMEs is refer to labour productivity.

(b) Independent Variables

Thepresent study used three independents variables i.e. Finance, infrastructure and training. In addition, various researchers (Fatoki, 2011; Ahmad *et al*, 2012; Nabintu, 2013; Kinyoa, 2014) explored that finance has significant impact on SMEs performance. Similarly, research done by (Ahmad *et al,* 2012; Okiyo*et al,* 2014; and Amwile, 2013), examined that infrastructure effect the performance of SMEs. Furthermore, (Yahya *et al,* 2012; Ubedda *et al,* 2013; Thamuta and Morunge, 2014) described that training has significant impact on SMEs performance.

(c) Control Variables

Previous studies show that there are certain indicators that affect the firm performance which needs to be controlled. For example, firm's age and size are important variables which influence the firm performance. The age and size of the firm's are included as continuous variables in logarithmic form.

3.2. MODEL

In this research paper, the researcher investigates the impact of finance, infrastructure and training on SMEs performance.In literature, a number of researchers have also investigated the impact of the abovementioned variables on SMEs performance (Abdullahi *et al,* 2015;Machirori*et al*,2012; Okeyo *et al,* 2014; De Kok 2002).

The model used in this study for empirical analysis is similar to the model of (Mahmood, 2008; Rehman, 2016) that is choose to explore the determinants that affecting the SMEs performance.

log Labor productivity: $\beta_o + \beta_1 Finance + \beta_2 Infrastructure + \beta_3 Training + \beta_4 size + \beta_5 age + \mu$ **……(1)**

The variables in the above model aredefined in table1. Table1 also indicates the mean and standard deviations of the variables.

Table 1: Variables Definition and their descriptive statistics

Variables	***n***	***Defi***	***Mean***	***Std.dev***
Labor productivity	1247	Log (sales/employees) in 2014	5.92	0.958
Finance	1247	Dummy variable assigned value 1 If firm financed its daily operations from internal and external resources, 0 otherwise	0.87	0.335

Infrastructure	1247	Dummy variable assigned value 1 if infrastructure facilities available to firm, 0 otherwise	0.51	0.500
Training	1247	Dummy variable assigned value 1 if firm have formal training programs for its employees, 0 otherwise	0.25	0.435
lnage	1247	ln (2014 minus age year of firm begin operation)	2.98	0.618
lnsize	1247	ln (total employees in 2014)	1.47	0.658

Source: Author own calculation

4.1. EMPIRICAL RESULT

Before application of OLS model, there are certaincharacteristics like multicollinearity whichare consider when the regression runs. Table 2 indicates the correlation matrices of the variables. On the basis of Pearson Correlation to observe either the variables relationship greater than 0.80. If the value is equal or higher than 0.80, then having Multicollinearity. While few or all explanatory variables are reasonably or veryinterrelated with oneanother, then it createmultycollinearity problem and it is hard to say which variable affecting the dependent variable (Koop, 2004). All variables show that there is no multicollinearity existed in the model. In addition, the financial information of the firm's such as productivity has been changed into international currency (US$). The average exchange rate has been calculated i.e.US$ 1= 104 PKR in the year 2014.

Table 2 presents correlation matrix

	LP	Finance	Infrastructure	Training	Age	Size
LP	1					
Finance	0.114	1				
Infrastructure	0.041	0.006	1			
Training	0.031	0.012	0.298	1		
Age	0.099	0.079	0.124	0.055	1	
Size	-0.023	-0.037	0.446	0.378	0.259	1

LP shows labor productivity

4.2. OLS RESULT

Regression result is given in the Table 3, which indicated the nexus between infrastructure,finance and training on the performance of Pakistani Manufacturing SMEs.

Table: 3 Dependent variable Log Labor productivity in 2014

Variables	Coef	t-values
Finance	0.596**	2.292
	(0.260)	
Infrastructure	0.100	1.084
	(0.092)	
Training	0.092	0.872
	(0.106)	
Log age	0.173**	2.309
	(0.075)	
Log size	-0.113	-1.554
	(0.073)	
Constant	4.915***	14.990

	(0.328)

N=1247 R-squared= 0.26. Standard errors in parenthesis. *** and ** indicating a significant level of 1% and 5% respectively.

Table 3 indicate the result of regression model. The coefficient of finance is positive and the proposed impact is statistically significant. The sign for the impact of finance on theperformance of SMEs is 0.596, which shows that one per cent increase in finance raises SMEs performance by 0.596. The positive sign of regression indicated a positive impact of finance on SMEs performance as shown in hypothesis. Therefore, our hypothesis is supported. Our result is similar to other several studies (Fatoki, 2011; Ahmad *et al*, 2012; *Nabintu*, 2013; Kinyua, 2014). This shows that finance has a positive and significant impact on SMEs performance. This implies that finance is important for Pakistani SMEs, however lack of enough finance SMEs does not attain his performance as finance is used to maintain a lot of aspects in suitableform like it is use to buying materials for firm, pay labours, expends onadvertisements and daily activities that SMEs are need for own to grow very well.

The coefficient of infrastructure is positive but statistically insignificant. This result is similar to the findings of(Okparra, 2011; Olugbinga, 2012; Kinyoa, 2014) showed that infrastructure has no relation with SMEs performance. This outcome suggests that majority of Pakistani SMEs in the sample are operated in rural areas that have no access, even in the rural regions there may have been more demand for their goods. This confines the firm's ability to increase and the prospect to produce profit so as tostay in business. Hence, the hypothesis that infrastructure has a significant effect on SMEs performance rejected.

Similarly, training also has a positive but insignificant influence on SMEs performance. This result is consistent to the prier studies of (Westheld& Storey, 1997; Cosh *et al,* 1998; Ojokuku*et al,* 2014). They found that training has insignificant impact on SMEs performance. Firstly, this suggest that owner of SMEsare almost engaged in fire-fighting activities such as taxation issues, managing the cash flow, competition and fast-changing markets, and thus are not able to spare themselves or their employees for training activities. Secondly, managers of SMEs select those employees who have enough skills and no need for further training. Thirdly, SMEs do not need any training as most of their working was customized and could be learned only through experience on the job. Hence, this result reject our hypothesis of training has a significant effect on SMEs performance.

Age has significant andpositiveeffect on SMEs performance. This suggest that majority of Pakistani SMEs are older. This finding implies that elderfirms performance are higher than younger firms Change *et al*., 2002). Similarly, size negative and insignificant impact on SMEs performance. This negative association suggests that small firms increase their performance with the time (Rehman, 2015). Moreover, small firms are more flexible indecision making and their efficiency level ishigher.

5.1. CONCLUSION

The purpose of this paper is to identify the impact of finance, infrastructure and training onSMEs performance. In this paper OLS regression model have been used to examine the relations between the variables. These findings are similar to the prior expectation from the literature. Finance has increased SMEs performance. Interestingly, the insignificant connection between infrastructure, training and SMEs performance implies that firms owner engaged in informal ways of operation and that majority of Pakistani SMEs in the sample are operated in rural regions that are beyond the access, albeit in the rural areas there may have more demand for their goods. This bounds the firm's ability to extend and opportunity to produce profit so as to stay in business.

5.2. Policy implication

The aim of this paper to scrutinize the impact of finance, infrastructure and training on SMEs performance in Pakistan. The study so recommended that government should implement policies and development programme aimed to improve access to finance easy for SMEs with developmentprospective and decrease interest rate. The government should give priority to the provision of existing infrastructure facilities such as electricity, water connection and telecommunication at a high standard. In addition, the aimed to improving

the skill level of Pakistani SMEs sector government should boost the businesspersons of SMEs to use Entrepreneurial Development Programs, and the SMEs owners should encourage the practise of training and rising their management and labour force so as to form a robustcapability for meeting these challenges.

5.3. Limitation and Future research

There are some limitations encounters in the study. The first limitation in this study was only taken manufacturing sector. Therefore, for future research more effort are needed to study different factors affecting the SMEs performance in Pakistan for mining, primary agriculture and service sector. The second limitation is that this study used three specific explanatory variables only. So, future researchers can increase the explanatory variables or adding moderating variables to the study so as to increase the result. Besides, this research is conducted based on cross-sectional data that are not draw causal relationship between the variables. For future research longitudinal study is recommended that allow the researchers to look at changes over time. Third limitation is total factor productivity is a betterdeterminants than labor productivity.

Authors Contributions:

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

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