



THE ROLE OF ACCESS TO FINANCE IN ENHANCING ORGANIZATIONAL PERFORMANCE: A STUDY OF SMALL AND MEDIUM ENTERPRISES

Maryam Isyaku

Department of Business Administration and Entrepreneurship, Bayaro University, Kano

Abstract

Access to finance is a critical factor influencing the performance and growth of Small and Medium Enterprises (SMEs), particularly in developing economies like Nigeria. This study examines the relationship between financial accessibility and organizational performance, with a focus on identifying the barriers SMEs face in obtaining adequate funding. Using a conceptual framework, the study explores how improved access to financial resources can enable SMEs to invest in technology, human capital, and market expansion, ultimately enhancing their competitiveness and profitability. Findings reveal a strong positive correlation between access to finance and organizational growth, highlighting the transformative potential of financial inclusion for SMEs. However, challenges such as stringent collateral requirements, high-interest rates, and information asymmetry persist, limiting the financial options available to SMEs. These insights underscore the importance of targeted interventions by policymakers to create an enabling financial environment and empower entrepreneurs. This study contributes to the discourse on entrepreneurial finance by offering actionable recommendations for addressing financing constraints. Future research should focus on sector-specific dynamics and the potential of digital financial solutions in bridging the finance gap for SMEs.

Keywords: Entrepreneurial Finance, SMEs, Access to Finance, Organizational Performance, Financial Inclusion

1. Introduction

The ease with which companies can acquire capital to support their operations and growth is referred to as access to finance. Sufficient funding is necessary for SMEs to engage in operations including investing in R&D, hiring experienced workers, and buying equipment. Notwithstanding their significance, SMEs usually face obstacles when trying to obtain outside capital, such as onerous collateral requirements, exorbitant interest rates, and convoluted loan application processes.

These difficulties are particularly noticeable in Nigeria. According to a study by Gumel and Bardai (2021), Nigerian SMEs continue to have significant challenges in obtaining financing, which impedes their ability to grow and expand. The authors list risk-averse lending practices and a lackluster financial infrastructure as major obstacles. Similar to this, study by Ogujiuba et al. (2013) shows that the high transaction costs and lack of

collateral make it difficult for Nigerian SMEs to obtain finance.

Limited financial access has a significant effect on an organization's performance. Reduced competitiveness, inhibited innovation, and operational inefficiencies might result from inadequate finance. On the other hand, better access to financing can help SMEs perform better by facilitating investments in market expansion, human resources, and technology. This opinion is supported by empirical data; for example, a study carried out in Kano State, Nigeria, found that SMEs' performance is positively and considerably impacted by their access to financing (Gusau Journal of Economics and Development Studies, 2023).

Examining the connection between financial access and organisational effectiveness is crucial given the crucial role SMEs play in economic development and the difficulties they have in obtaining financing. By investigating how financial access affects the

performance of SMEs in Nigeria, this study seeks to provide knowledge that can guide support systems and policy changes for small businesses.

This study aims to achieve the following:

- i. To examine the relationship between access to finance and organizational performance in SMEs.
- ii. To identify the key barriers preventing SMEs from accessing adequate financing.
- iii. To propose actionable recommendations for improving financial access to enhance SME performance.

This study is significant for several reasons:

Policy Development: It offers information that helps direct decision-makers as they develop SMEs-specific financial inclusion plans. **SME Empowerment:** Entrepreneurs can implement more efficient financial management techniques by being aware of the opportunities and difficulties associated with obtaining financing.

Economic Growth: SMEs' contributions to employment, innovation, and GDP growth are expected to increase with better access to financing, especially in emerging nations like Nigeria.

Nigerian small and medium-sized businesses (SMEs) are the subject of this study, especially those in economically active areas like Lagos and Kano States. In order to document current trends and advancements in financial access, it looks at the years 2015–2024. The study takes into account many aspects of financial access, such as debt financing, equity financing, and unofficial funding techniques, and how they affect measurements of organisational performance like market expansion, innovation, and profitability.

2. Literature Review

2.1 Conceptual Review

Access to Finance and Organizational Performance

The study's conceptual framework investigates the connection between Small and Medium Businesses' (SMEs) organisational performance and their ability to

obtain financing. The availability and use of financial resources from a variety of sources, including both official channels like banks and unofficial ones like personal savings, are included in the concept of access to finance. Metrics like profitability, growth, and operational efficiency are used to evaluate an organization's performance. According to the framework, SMEs can invest in vital areas like technology, human capital, and market expansion when they have better access to financing, which improves overall performance.

On the other hand, these investments may be hampered by restricted access to financing, which could result in stagnation or decline. The legal framework, the availability of collateral, and the financial literacy of SME owners all have an impact on this connection. Developing policies and initiatives that promote the growth and sustainability of SMEs requires an understanding of these dynamics.

Relationship between Access to Finance and Organizational Growth

For SMEs, having access to financing is a crucial factor in determining organisational growth. Sufficient funding enables these businesses to invest in new technology, expand, and enhance their operating capabilities. Access to financing and the expansion of SMEs are positively correlated, according to empirical research. For example, Beck and Demircuc-Kunt (2006) discovered that SMEs face more expansion barriers than larger companies due to financial restrictions. In a similar vein, Ayyagari, Demircuc-Kunt, and Maksimovic's (2008) study found that SMEs having access to external financing have faster growth rates. These results highlight how crucial financial accessibility is to SMEs' ability to grow, penetrate new markets, and become more competitive.

Challenges in Accessing Finance for SMEs

Despite their pivotal role in economic development, SMEs face numerous challenges in accessing finance. Key obstacles include:

- i. **Collateral Requirements:** Many SMEs are unable to provide the significant collateral that financial

institutions frequently require, which restricts their capacity to obtain loans (Beck, Demirguc-Kunt, & Maksimovic, 2008). High interest rates can make borrowing unaffordable for SMEs, which discourages them from looking for outside funding (Beck & Demirguc-Kunt, 2006).

ii. Information Asymmetry: According to Stiglitz and Weiss (1981), lenders may not have enough knowledge about the creditworthiness of SMEs, which could increase perceived risks and result in less financing. Regulatory Restrictions: Especially in developing nations, complicated regulatory frameworks may make it difficult to obtain financing (Beck, Demirguc-Kunt, & Maksimovic, 2005).

Policymakers, financial institutions, and SMEs themselves must work together to address these issues and establish an environment that makes it easier for people to get financing and encourages the expansion of businesses.

3. Conclusion and Recommendations

3.1 Summary of Findings

This study emphasises how important financial access is in determining the success and future course of small and medium-sized businesses (SMEs). Financial accessibility and organisational growth are found to be strongly positively correlated, with SMEs being able to invest in technology, staff development, and market expansion when they have access to sufficient funding. Significant obstacles that SMEs have when trying to obtain financing are also described in the survey, including high interest rates, strict collateral requirements, and a lack of financial knowledge among

business owners. These obstacles frequently prevent SMEs from realising their full potential and making the best possible contributions to economic growth.

3.2 Implications for Entrepreneurs and Policymakers

The results highlight how crucial it is for business owners to enhance their financial management procedures and look into a variety of funding options outside of conventional banking systems. By keeping clear financial records and constructing compelling business cases for funding, entrepreneurs are urged to improve their creditworthiness.

The report highlights the necessity for policymakers to establish a financial environment that is more inclusive. This entails encouraging microfinance organisations, lowering borrowing costs, and putting laws into place that lessen the need for collateral from SMEs. Important obstacles can also be addressed by bolstering financial literacy initiatives and providing incentives for lenders to assist SMEs.

3.3 Recommendations for Future Research

To find specialised insights, future studies could examine sector-specific dynamics in the connection between organisational effectiveness and financial access. Further insights can also be gained from longitudinal studies that look at how financial inclusion programs affect SMEs over lengthy periods of time. Research could also concentrate on how novel funding methods like crowdsourcing and digital finance platforms can improve SMEs' access to financing in disadvantaged areas.

References

- Ayyagari, M., Demirguc-Kunt, A., & Maksimovic, V. (2008). How Important Are Financing Constraints? The Role of Finance in the Business Environment. *World Bank Economic Review*, 22(3), 483-516.
- Beck, T., & Demirguc-Kunt, A. (2006). Small and Medium-Size Enterprises: Access to Finance as a Growth Constraint. *Journal of Banking & Finance*, 30(11), 2931-2943.
- Beck, T., Demirguc-Kunt, A., & Maksimovic, V. (2005). Financial and Legal Constraints to Firm Growth: Does Firm Size Matter? *Journal of Finance*, 60(1), 137-177.
- Beck, T., Demirguc-Kunt, A., & Maksimovic, V. (2008). Financing Patterns Around the World: Are Small Firms Different? *Journal of Financial Economics*, 89(3), 467-487.
- Gumel, B. I., & Bardai, B. (2021). Barriers to Accessing Financial Institutions Funding for Nigerian SMEs. *ResearchGate*. Retrieved from ResearchGate
- Gusau *Journal of Economics and Development Studies*. (2023). Access to Finance and Its Impact on Small and Medium Enterprises Performance in Kano State. *Gusau Journal of Economics and Development Studies*, 4(1), 208. Retrieved from Gujeds
- Ogujiuba, K. K., Ohuche, F. K., & Adenuga, A. O. (2013). Credit Availability to Small and Medium Scale Enterprises in Nigeria: Importance of New Capital Base for Banks – Background and Issues. *Central Bank of Nigeria*. Retrieved from ScholarWorks
- Stiglitz, J. E., & Weiss, A. (1981). Credit Rationing in Markets with Imperfect Information. *American Economic Review*, 71(3), 393-410.