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Research Article

Exploration of Financing Decisions of Small and Medium Enterprises: A Detailed Literature Review

Mandeep Singh[1*], Dr. Jasvir S[2]

Abstract
The objective of our study is to look into the financing decisions of small and medium enterprises. For this, we reviewed through literature on financing decisions. We did a thorough review of the literature. We gathered several research papers from various databases using specified keywords and then sorted them according to distinct uses. The results show that the main variables that affect the SMEs' capital structure are age, profitability, size, growth, and tangibility. Age, experience, gender, ethnicity, and education are some of the attributes and personal traits that have a higher influence on financial decision-making. The majority of SMEs use short-term loans to fund their demands. Internally generated funds are preferred by the firms. MSMEs confront numerous challenges, including the inability to get internal and external financing, the necessity of collateral securities, the complex lending processes of lending institutions, such as unnecessary formalities and extensive paperwork, and high interest rates. With the help of this study, we have been able to know that what are the financing preferences of SMEs, how they finance themselves and what problems they face while financing.

Keywords: Small and Medium Enterprises (SMEs), Financing Decisions, Financing Preferences, Problems, Financing Practices, Capital Structure.

Introduction

In a nation like India, where capital is in short supply and unemployment is pervasive, the expansion of the small and medium sized enterprises (SMEs) is essential to achieving a balanced rate of economic growth. By creating jobs with minimal initial investments, this industry addresses the issues of poverty and unemployment. Small and medium-sized businesses sell their goods locally and rely on local expertise and resources. These handicrafts are practised all across the nation and include Khadi, handlooms, coir, sericulture, manufacturing bidis, knitting, embroidery, wood carving, and other skills. Small and medium-sized businesses have some technological expertise and use power-driven machinery. These sectors have a rather large market, which frequently includes an export market. These businesses are typically found near or in urban regions, especially significant industrial hubs. Their offerings include ready-to-wear clothing, sports equipment, rubber products, motor components, electronics, and hosiery (Mohanty, 2018). According to the 73rd round of the National Sample Survey (NSS), 6.34 crore MSMEs that are not agricultural and are not incorporated but participate in a variety of economic activities are present in the nation during the 2015–16 year (36 percent in trade, 31 percent in manufacturing, and 33 percent in other services). Out of 6.34 crore, rural areas accounted for 51.25 percent of MSME and urban areas accounted for 48.75 percent. This industry has made a substantial contribution to the total increase in GDP, employment creation, and exports. The industry generates 33.4 percent of India's manufacturing output, 6.11 percent of the

[1]*Research Scholar, Department of Management, Chaudhary Ranbir Singh University, Jind (Haryana), 126102, India. Email: msbgurthali@gmail.com
[2]Assistant Professor, Department of Management, Chaudhary Ranbir Singh University, Jind (Haryana), 126102, India, Email: jasvir.sura@crsu.ac.in

country's manufacturing GDP, and 24.63 percent of its service-related GDP, employs 11.10 crore people (with a rural employment rate of 45 percent and a city employment rate of 55 percent), and accounts for about 45 percent of all Indian exports.
We looked over the literature over the years in light of the significance of SMEs.

Methodological Literature Review (MLR)
Researchers endow with the categories of the area into the various classifications of the literature review after reviewing a vast amount of literature on SMEs. Fink (2005) believes that a literature review should have a systematic approach, be precise in explaining the techniques, and be comprehensive in scope, encompassing all relevant material linked to the specific domain of study. The current study employs a methodological literature review, similar to Singh and Kumar (2014) and Transfielde, Denyier, and Smart (2003). (MLR). As indicated in Figure 1, the MLR approach for detecting the research gap is divided into four phases.

Boundaries of Literature Review

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Classification of Literature

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Detailed Content Analysis of Research Articles

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Conclusion

Figure- I Phases of Methodological Literature Review (MLR)

Boundaries of Literature Review: Scholarly research publications on SMEs were found in a variety of databases, allowing for a broad and diverse collection of articles to be included in the literature review. Emerald, JStor, Taylor & Francis, Sage, Springer, and Elsevier were among the databases investigated for this purpose. Small and medium enterprises, micro, small and medium-sized enterprises, SMEs, and MSMEs were used as keywords, with the advanced search option limiting the search results. Because it was impossible to review all of the sought literature, some restrictions were placed to eliminate and delimit the massive amount of literature using keywords search. Following criteria were utilised to narrow down the search results as:

- The papers published in reputable academic publications,
- papers available in full text, and
- papers available in the English language

After considering the relevance of research articles for the current study based on their abstracts and findings, 130 research papers were selected for a review of the literature.

Classification of Literature: The literature on financing decisions discovered by researchers all across the world must be organised. The purpose of this study is to conduct a systematic review of the small and medium business research literature.

A total of 130 research articles were categorised using databases, publication year, journal publishing, university/institutions contribution, country (the study's origin), author, sector, research type, and top cited articles. It was carried out in order to comprehend the trends and issues present in the chosen literature.

Database-wise Classification

Table 1 shows the classification of publications published in databases. According to the classification, the Emerald database published the most publications on SMEs, accounting for about 38 percent of 130 reviewed papers, followed by Elsevier and Taylor & Francis with nearly 22 percent and 17 percent, respectively. Sage published nearly 5% of research papers on SMEs among the databases chosen.

Table: 1 Database-wise Classification

Sr. No.	Databases	Number of Articles	Percent
1	Emerald	49	37.69
2	Elsevier	28	21.54
3	Taylor & Francis	22	16.92
4	Springer	20	15.38
5	Sage	06	4.62
6	Others	05	3.85
	Total	130	100

Year-wise Publication Classification

The year-wise publication classification of the selected research publications is shown in Table 2. As per the table, 12 (9.23 percent) papers were published between 2001 and 2005.

Table: 2 Year of Publication-wise Classification

Sr. No.	Year of Publication	Number of Articles	Percent
1	2001-05	12	9.23
2	2006-10	25	19.23
3	2011-15	49	37.69
4	2016 to date	44	33.85
	Total	130	100

During 2006 and 2010, 25 (19.23 percent) and 49 (37.69 percent) articles were published, respectively. There have been 44 research papers published in the current time (2016 to date), accounting for 33.85% of the total.

Country-wise Classification

Table 3 shows where the research articles on SMEs originated from. The research on SMEs was supplied from all over the world. Surprisingly, the top ten countries generated more than 60% of the research publications on SMEs, as shown by the classification.

Table: 3 Top 10 Countries-wise (Origin of Study) Classification

Sr. No.	Name of Countries	Number of Articles	Percent
1	Multination	26	20
2	India	14	10.77
3	Spain	08	6.15
4	Australia	07	5.38
5	Portugal	07	5.38
6	UK	06	4.62
7	China	06	4.62
8	Ghana	05	3.85
9	Greece	04	3.08

10	Sweden	04	3.08
11	Others	43	33.08
	Total	130	100

The majority of the research (20%) are from multinational among the top 10 countries. Researchers from India produced 10.77 percent of all publications, followed by researchers from Spain and Australia, who contributed 6.15 percent and 5.38 percent, respectively. Greece and Sweden generated only 3.08 percent of research papers among the top ten countries.

Journal-wise Publication Classification

The classification of journal publications is shown in Table 4. According to the classification, the Springer database's Small Business Economics Journal published the most articles (10.69%), followed by Small Business and Enterprise Development Journal.

Table: 4 Top 05 Journal-wise Publication Classification

Sr. No.	Journal Name	Database	Number of Articles	Percent
1	Small Business Economics	Springer	10	7.69
2	Small Business and Enterprise Development Journal	Emerald	09	6.92
3	Managerial Finance	Emerald	05	3.85
4	The European Journal of Finance	Taylor & Francis	04	3.08
5	Procedia Economics and Finance	Elsevier	04	3.08
6	Others		98	75.38
	Total		130	100

The European Journal of Finance of Taylor & Francis and Procedia Economics and Finance of Elsevier databases each published 09 articles (6.92%), Managerial Finance of Emerald 05 research papers (3.85%), and The European Journal of Finance of Taylor & Francis and Procedia Economics and Finance of Elsevier database each published 04 articles (3.08%). There are two Emerald database journals among the top 05 journals.

Universities/Institutions Contribution Classification

Table 5 presents the contribution classification of the reviewed research publications by universities/institutions. Small and medium-sized enterprise research was conducted in 118 universities/institutions around the world. The University of Ghana Business School in Ghana contributed four research papers, while the University of Seville in Spain, Tilburg University in the Netherlands, and the University of Latvia in Riga, Latvia each contributed three.

Table: 5 Top 05 University/Institution Contribution Classification

Sr. No.	University/Institution Name	Number of Articles	Percent
1	University of Ghana Business School, Ghana	04	3.08
2	University of Seville, Seville, Spain	03	2.31
3	Tilburg University, Netherlands	03	2.31
4	University of Latvia, Riga, Latvia	03	2.31
5	Department of Business, Economics and Law, Mid Sweden University	02	1.54
6	Others	115	88.46
	Total	130	100

Furthermore, only a small number of Indian institutions contributed to this field. Department of Management Studies, Malaviya National Institute of Technology, Jaipur; Department of Humanities and Social Sciences, IIT Kharagpur, Kharagpur; Faculty of Management Studies, Banaras Hindu

University, Varanasi; Department of Business Management, Punjab Agricultural University; Department of Commerce and Business Management, Guru Nanak Dev University, Amritsar, Punjab; and S.C.D. Government College, Ludhiana, Punjab were among the contributors from India.

Number of Author-wise Classification

Table: 6 Number of Author-wise Classification

Sr. No.	Author Type	Number of Articles	Percent
1	Single	21	16.16
2	Two authors	55	42.31
3	More than two	54	41.53
	Total	130	100

According to Table 6, the greatest number of research articles with two authors was 42.31 percent, and the maximum number of research papers with more than two writers was 41.53 percent. Only 16.16 percent of research publications in reviewed journals were written by a single person.

Sector-wise Classification

Table: 7 Sector-wise Classification

Sr. No.	Sectors	Number of Articles	Percent
1	Manufacturing	18	13.85
2	Service	00	00
3	Multi-Sector	112	86.15
	Total	130	100

As seen in Table 7, the majority of research articles on SMEs were multi-sector. Multi-sector research accounted for 86.15 percent of all research, with manufacturing accounting for 13.85 percent. In the reviewed articles, there is no input from the service sector.

Types of Research-wise Classification

Selected research publications were further categorised into qualitative and quantitative research kinds. The bulk of research articles were quantitative in character, as seen in Table 8 (122 articles).

Table: 8 Type of Research-wise Classification

Qualitative Study		Quantitative Study	
Literature Review	04	Primary Data-based	46
Case Studies	02	Secondary Data-based	70
Conceptual Type	02	Mix (primary as well as secondary)	06
Total	08	Total	122

There were 70 research publications that only used secondary data, 46 research papers that only used primary data, and only six articles that used both primary and secondary data. The table also shows that four of the eight qualitative research articles were literature review. Each case study and conceptual type was represented by two articles.

Top 10 Cited Articles Classification

Table 9 provides the list of top 10 cited articles on SMEs. For citation purposes, Google scholar citation information has been used. As per the table, “Small and medium-size enterprises: Access to finance as a growth constraint” by Thorsten Beck and Asli Demirguc-Kunt (2006) article published in Journal of Banking & Finance (Elsevier) cited highest 1783

Table: 9 Top 10 cited Articles Classification

Sr. No.	Authors	Article Title	Journal	GS cited times
1	Thorsten Beck and Asli Demirguc-Kunt (2006)	Small and medium-size enterprises: Access to finance as a growth constraint	Journal of Banking & Finance (Elsevier)	1783
2	Thorsten Beck, Asli Demirgu-Kunt and Vojislav Maksimovic (2008)	Financing patterns around the world: Are small firms different?	Journal of Financial Economics (Elsevier)	1020
3	Joshua Abor (2005)	The effect of capital structure on profitability: an empirical analysis of listed firms in Ghana	The Journal of Risk Finance (Emerald)	1015
4	Thorsten Beck a, Aslı Demirgu-Kunt, Luc Laeven and Vojislav Maksimovic (2006)	The determinants of financing obstacles	Journal of International Money and Finance (Elsevier)	947
5	Rataporn Deesomsak, Krishna Paudyal and Gioia Pescetto (2004)	The determinants of capital structure: evidence from the Asia Pacific region	Journal of Multinational Financial Management (Elsevier)	757
6	Gavin Cassar and Scott Holmes (2003)	Capital structure and financing of SMEs: Australian evidence	Accounting and Finance (Blackwell Publishing)	725
7	Francisco Sogorb-Mira (2005)	How SME Uniqueness Affects Capital Structure: Evidence from A 1994-1998 Spanish Data Panel	Small Business Economics (Springer)	496
8	Graham Hall, Patrick Hutchinson and Nicos Michaelas (2000)	Industry Effects on the Determinants of Unquoted SMEs' Capital Structure	International Journal of the Economics of Business (Taylor & Francis)	469
9	Robert Watson and Nick Wilson (2002)	Small and Medium-Size Enterprise Financing: A Note on Some of the Empirical Implications of a Pecking Order	Journal of Business Finance & Accounting (Blackwell Publishing)	324
10	Hans Degryse, Peter de Goeij and Peter Kappert (2012)	The impact of firm and industry characteristics on small firms' capital structure	Small Business Economics (Springer)	323

times placed in the top followed by the article contributed by Thorsten Beck, Asli Demirgu-Kunt and Vojislav Maksimovic (2008) on "Financing patterns around the world: Are small firms different?" published in Journal of Financial Economics (Elsevier) cited 1020 times. Remarkably, none of the Indian author's articles on SMEs having a place in the top ten citation articles.

DETAILED LITERATURE REVIEW OF VARIOUS CONTEXTS

Determinants of SMEs' Capital Structure

Age, size, profitability, growth, and tangibility are the primary factors that determine the capital structure of SMEs, according to review of the literature. Based on the financial leverage of SMEs, the effect of these factors has been investigated. The total, long-term, and short-term leverages are the financial leverage measures that the researchers have used. According to Dasilas and Papasyriopoulos (2015), Bhaird and Lucey (2010), Menike (2015), Kumar and Rao (2016), Mukherjee and Mahakud (2010), Cassar and Holmes (2003), Nguyen and Ramachandran (2006), Proenca, Laureano and Laureano (2014), Alipour, Mohammadi and Derakhshan (2015), Rao, Kumar and Madhavan (2019), factors such as profitability, business size, asset structure, credit ratings, and growth potential have a substantial effect on the leverage of the firm. Financial leverage is positively correlated with size, growth, asset structure, profitability, firm 's size, business risk, bank ties, and networking (Panno, 2003; Nguyen and Ramachandran, 2006; and Abor and Biekpe, 2009). The findings of Daskalakis and Psillaki (2008); and Caneghem and Campenhout (2012), on the other hand, show that the asset structure and the firm's age have a negative impact on the leverage of the firm. However, authors such as Sogorb-Mira, 2005; Deesomsak, Paudyal, and Pescetto, 2004; and Acedo-Ramirez, Ayala-Calvo, and Rodriguez-Oses, 2013 argue that leverage has a negative association with business profitability, non-debt tax shields, growth potential, liquidity, and share price performance. Furthermore, the risk of bankruptcy has a detrimental impact on a firm's financial leverage (Panno, 2003). The influence of asset structure, business size, age, and profitability on short-term debt varies by industry, while the effect of growth is consistent across all industries (Hall, Hutchinson and Michaelas, 2004). Short-term debt has a positive link with the firm's growth and size, but a negative relationship with profitability, the firm's age, asset tangibility, and liquidity (Ohman and Yazdanfar, 2017). In contrast, Hall, Hutchinson, and Michaelas (2000), as well as Benkraiem and Gurau (2013), suggest that the firm' size has a negative effect on short-term debt, and Abor (2005) claims that the short-term debt ratio is favourably associated to equity return.

Long-term debt is positively associated with asset tangibility and growth, and adversely associated with profitability, business size, age, liquidity, and non-debt tax shields (Bhaird and Lucey, 2010; and Hall, Hutchinson and Michaelas, 2000). On the other hand, a study by Benkraiem and Gurau (2013) discovered a positive relationship between long-term debt and the firm's size. Abor (2007) asserts that the capital structure, in particular total debt and long-term ratios, have a negative effect on the performance of SMEs. Risk and business size are less significant factors that affect a firm's capital structure (Cassar and Holmes, 2003), and in the analysis of SMEs' financing decisions, the age of the firm is a major element, particularly when it comes to debt adjustments and variations (Serrasqueiro and Nunes, 2011). Wasiuzzaman and Nurdin (2018), on the other hand, claim that the size and age of the firm have no bearing on the debt financing decision. Other firm-related factors, such as financial performance, legal form, amount and quality of information, and access to funding, influence SMEs' debt financing decisions (Wasiuzzaman and Nurdin, 2018; and Caneghem and Campenhout, 2012). Furthermore, business objectives have a considerable impact on SMEs' financing selections. SMEs who are focused on profitability or growth aim to raise more money than those who are focused on the quality of their products and services (Xiang and Worthington, 2015).

The profitability and size of the firm have a favourable impact on the firm's value (Al-Najjar and Al-Najjar, 2017). Small businesses have less leverage than medium-sized businesses. Enterprises with higher profits utilise less debt than firms with lower profits. High-growth firms employ more debt, mainly long-term debt. When compared to enterprises with less fixed assets, organizations with more fixed assets can borrow more long-term capital (Benkraiem and Gurau, 2013). According to the findings of Briozzo and Vigier (2014), older organisations and those with lower predicted growth rates employ fewer personal loans to fund their operations. Furthermore, according to Li, Niskanen, and Niskanen (2018), Debt ratio and firm performance are negatively correlated in SMEs with minimal credit risk. This link does not exist in SMEs with a high credit risk. The performance of SMEs with little credit risk is harmed by leverage. Whether the firm is family-owned or not, debt has a negative impact on its performance (Vieira, 2017).

The Personal Characteristics and Attributes of the Owner-Managers of SMEs

Age, gender, experience, education, and ethnicity are some of the attributes and personal characteristics that have a higher influence on financial decision-making. Owner-managers have an unfavourable attitude toward formal finance. Because they are less familiar with financial options and processes, they choose to use informal finance. Longer-serving owners or managers are more likely to apply leverage than those with less experience (Rasheed and Siddiqui, 2018; Irwin and Scott, 2010; and Green, Kimuyu, Manos and Murinde, 2015). Owners and partners, rather than professional managers, make financing decisions in SMEs, according to Uyar and Guzelyurt (2015). Stronger networking ties often result in less debt financing needed by business owners since they have better access to outside resources through unofficial channels (Borgia and Newman, 2012).

When deciding on a capital structure for a small business, some aspects such as the desire to keep control and the willingness to take risks should be considered (Watson, Newby and Mahuka, 2009; and Borgia and Newman, 2012). The debt ratios of family enterprises are higher than those of non-listed family firms. They do not seek more equity financing since they wish to keep ownership of the firm (Burgstaller and Wagner, 2015). Personal loans are less likely to be used to finance operations by owners who perceive minimal emotional bankruptcy costs and younger owners who seek to create growth or value (Briozzo and Vigier, 2014). Graduates encounter fewer financial challenges. Women have an easier time acquiring funds than men, while black owner-managers have the biggest challenges (Irwin and Scott, 2010). As a finance source, women-owned SMEs choose to raise additional equity investments. There are no variations in profitability, utilisation of bank financing, or firm size between men-owned and women-owned SMEs (Eriksson, Katila and Niskanen, 2009). According to Okello, Ntayi, Munene, and Malinga (2017), financial literacy aids SMEs managers in understanding and evaluating the information needed to make financial decisions and choices.

Impact of Macro-Economic Factors on SMEs' Financing Decisions

Higher economic growth and inflation rates, legal system efficiency, technology issues, unpredictability, and the development of financial markets all influence SMEs' financing decisions (Wanzenried, 2006; Serrasqueiro, Nunes and Armada, 2016; and Deesomsak, Paudyal and Pescetto, 2004). Furthermore, the real business needs, interest charges, agency conflicts, and industry competition are all major elements that influence the financing type chosen (Mura and Buleca, 2012; and Degryse, Goeij and Kappert, 2012). The growth of the financial sector, according to Sanchez and Pietro (2016), has a beneficial impact on SMEs financing. The presence of multiple bank branches has a good influence on bank financing for SMEs, but regional banking market concentration has a negative impact. SMEs' prospects of obtaining debt funding are reduced when bank competition is low. The increased level of government intervention makes it easier for SMEs to obtain bank financing (Du, Bian, and Gan, 2017). When we describe SMEs' capital structure, the industry effect becomes more important, according to studies by Abor (2007), Menike (2015), Degryse, Goeij, and Kappert (2012), and Johnsen and McMahon (2005). Furthermore, the impact of industry and country on capital structure is greater than the impact of firm size (Koralun-Bereznicka, 2017). According to the findings of studies by Palacin-Sanchez, Ramirez-Herrera, and Di-Pietro (2013) and Berggren and Silver (2010), enterprises' financing choices differ in different locations and countries (Moritz, Block, and Heinz, 2016). Firms looking for new owners, particularly professional investors, are more interested in metropolitan locations. Banks are the most important financier in little towns. The relation between the firm, its management, and its employees is strengthened when it is located in a metropolitan region.

Financing Sources for SMEs

Credit/finance is critical to the promotion, development, and expansion of MSMEs (Singla and Grover, 2012). Small businesses employ more internal finance, finances from family and friends, and less external funding, according to studies by Beck, Demirguc-Kunt, and Maksimovic (2008) and Rupeika-Apoga and Danovi (2015). The majority of SMEs use short-term loans to fund their demands (Abor, 2005; and Nguyen and Ramachandran, 2006). Internal finances, short-term bank loans, supplier credit, co-operative finance, and leasing are all common financing options for firms (Sanchez-Vidal and Martin-Ugedo, 2005; Green, Kimuyu, Manos and Murinde, 2015; and Mura and Buleca, 2012). As a result, personal resources and borrowings are the main methods of financing entrepreneurship in rural areas (Sadeghloo, Qeidari, Salehi and Jalali, 2018; and He and Baker, 2007). Bank Financing: Banks are necessary for SMEs to grow (Khan, 2015). The trustworthiness of financial data, financial intelligence inspections, cash creation power, a robust equity basis, and sufficient revenue all influence SMEs' access to bank credit (Erdogan, 2018). According to Beck, Demirguc-Kunt, and Peria (2011), different banks use different lending approaches and organisational structures to finance the demands of SMEs. Varying types of banks offer different amounts, prices, and forms of SME financing in different nations. When it comes to approving loans to SMEs, banks look at things like licencing, age, and yearly turnover (Zeneli and Zaho, 2014). Furthermore, when banks lend to SMEs, overall bank assets are not taken into account (Shen, Xu and Bai, 2009). Size and age of the business have a favourable correlation with access to bank financing (Andrieu, Stagliano and Zwan, 2018). The second most important source of external finance is bank loans. Firms with faster growth rates are less likely to seek funding from banks or the markets (Allen, Chakrabarti, De, Qian and Qian, 2012). Enterprises affiliated with business groupings are more likely to obtain bank financing and require less bank financing than individual firms. SMEs that are older, profitable, have a lengthy banking relationship, and have less debt financing can readily obtain bank financing (Cainelli, Giannini and Iacobucci, 2020). Manufacturing SMEs are thought to have superior bank financing access (Erdogan, 2018). According to the findings of a study conducted by Canton, Grilo, Monteagudo, and Zwan (2013), the smallest and youngest SMEs have more difficulty obtaining bank financing than older SMEs. In nations with highly concentrated banking sectors, SME access to bank financing is stronger than in nations with less concentrated banking sectors. Growing SMEs are also more optimistic about obtaining bank financing than non-growing SMEs, according to the results. The fundamental reason for SMEs' limited access to bank finance is a lack of information symmetry between them and the banks. Perceived default risk has a detrimental impact on loan officers' willingness to offer loans to SMEs, but greater quality accounting information has a positive impact (Palazuelos, Crespo and Corte, 2017). Commercial banks are encouraged to lend to SMEs via expanded local lending authority, well planned incentive schemes, increased competition, and tighter law enforcement (Shen, Xu, and Bai, 2009; and Hasan, Jackowicz, Kowalewski, and Kozowski, 2017). Casey and O'Toole (2014) identify inter-company and informal lending as important alternatives to bank finance.

Informal Financing: According to Allen, Qian, and Xie (2019), informal finance is commonly used by younger, smaller, and less audited firms. Constructive informal funding, such as family borrowing and trade credits, is linked to firm's growth. When enterprises have easy access to bank loans, the importance of informal financing in sustaining firm expansion reduces. The largest source of external finance is alternative finance, which includes non-market, non-bank financing that is often backed by non-legal procedures. Trade credit is used and applied for by credit-rationed firms (Casey and O'Toole, 2014). Profitability, the age of the firm, and long-term debt all have a negative impact on the utilisation of trade credit. The possibility of increasing trade credit is reduced by more profitable enterprises and the availability of long-term loans. Short-term debt and the size of the company in terms of sales are both positively associated to trade credit (Yazdanfar and Ohman, 2017). Trade credit, overdraft, and asset financing are all forms of funding that help in businesses innovation (Fombang and Adjasi, 2018).

For SMEs, bank loans and trade credit are the most common sources of funding, according to Kumar and Rao (2016). Bank credit and trade credit are chosen at the same time and have a negative relationship (Palacin-Sanchez, Canto-Cuevas and Di-Pietro, 2019). Rather than being substitutes, bank financing and trade credit are complementary (Andrieu, Stagliano and Zwan, 2018). If SMEs are having difficulty obtaining bank funding due to a high level of banking concentration, they will rely increasingly on trade credit financing (McGuinness, Hogan and Powell, 2017). Martinez-Sola, Garcia-Teruel, and Martinez-Solano (2017) found that firm value and supplier finance have a favourable association. Leverage, cash flow, and short-term debt all have a negative influence on supplier financing, but the marginal value of supplier financing increases when financial costs rise. They suggested that if external and internal finance are more readily available, as well as low financial costs, the demand for supplier financing will be reduced. SME performance is considerably improved by supply chain finance. Furthermore, trade digitization improves the link between SMEs' success and supply chain finance (Ali, Gongbing, and Mehreen, 2018).

Financing Preferences and Practices of SMEs

According to studies by Kuruppu and Azeez (2016), Gebru (2009), Riding, Orser, and Chamberlin (2012), Osei-Assibey, Bokpin, and Twerefou (2012), ownership structure, owner education, size of the business, age of the business, goals for the business' growth, industry in which the business operates, tangible assets of the household, and high interest rates in the credit market are important factors that influence the financing preference of micro, small, and According to Zoppa and McMahon (2002) and Watson and Wilson (2002), the pecking order theory is present in the financing behaviour of small enterprises. Companies often use internal resources first, followed by debt, and then equity finance. According to Baker, Kumar, and Rao (2017), SMEs prefer internal funds over bank finance, particularly long-term loans and funds from government and financial organisations. SMEs prefer trade credit above funding from family friends, relatives, and money lenders when it comes to informal sources. The least desired financing is external equity. As per the findings of Daskalakis, Jarvis, and Schizas (2013); Uyar and Guzelyurt, 2015; Koralun-Bereznicka, 2017; and Degryse, Goeij, and Kappert (2012), enterprises rely mostly on internal funds and avoid raising equity funding from outsiders. They would rather take on additional debt, particularly long-term debt. It is also possible to conclude that micro and small businesses use the pecking-order funding strategy. Paul, Whittam, and Wyper (2007), on the other hand, discovered that the pecking order theory only partially held true. Although entrepreneurs prefer to spend their own money initially, equity always wins out over debt when outside financing is needed. Similar to this, a study by Bartholdy, Mateus, and Olson (2015) found that Portuguese businesses frequently switch between lower cost and higher cost sources of funding, but they do not fully utilise each type of debt before moving on to the next funding source in the hierarchy. Such behaviour, however, is totally inconsistent with a strict definition of pecking order financing. Similar to this, a study by Serrasqueiro, Nunes, and Armada (2016) discovered that high-tech SMEs prefer equity issues over debt when their internal financing is exhausted.

Internal finance is preferred by young businesses because it is less risky, less official, and less expensive (Osei-Assibey, Bokpin and Twerefou, 2012; and Kuruppu and Azeez, 2016). MSE owners with a low degree of education must first exhaust internal capital before seeking external finance. They adhere to the pecking order theory's explanations. Even if internal sources are not exhausted, sole proprietorships do not want to utilise external financing, whereas partnership and company ownership forms prefer to use external finance (Gebru, 2009). Male entrepreneurs tend to take out commercial bank loans, whereas female and senior entrepreneurs prefer to save their money (He and Baker, 2007). Ethnic minority business owners and managers preferred less invasive and more "user friendly" financing methods that allowed them to maintain complete control over their businesses (Hussain and Matlay, 2007). Strongly expanding businesses tend to use retained earnings first, followed by debt, and then equity funding. Low-growth firms use a balanced approach to financing. Firms want to use long-term debt to finance their cash flow shortages (Sanchez-Vidal and Martin-Ugedo, 2005). Moreover, growth-oriented and new technology-based enterprises prefer to utilise all available sources of financing over young but non-technologically based firms. New technology-based businesses want to build their operations through equity financing rather than debt financing. They prefer not to use trade credit (Riding, Orser and Chamberlin, 2012). The most common and favoured source of firm financing is short-term debt/borrowing from commercial banks (Alipour, Mohammadi and Derakhshan, 2015; Uyar and Guzelyurt, 2015; Kathuria and Mamta, 2012; and He and Baker, 2007). According to the findings of a study by Kathuria and Mamta (2012), the majority of units claim to have begun their firm with just internal finances. Kuruppu and Azeez (2016), on the other hand, found that Sri Lankan SME owners choose long-term debt to bootstrapping and short-term loans. MSMEs prefer direct fiscal incentives such as interest rate and investment subsidy for new units, according to Pandya (2017). MSMEs don't like indirect incentives like cash subsidies for water consumption or subsidies for energy review. According to Daskalakis, Eriotis, and Vasiliou (2014), enterprises that can receive more internal financing choose not to use borrowed financing. When compared to enterprises with a higher amount of tangible assets, organisations with a lower amount of tangible assets employ more debt. Larger firms employ more debt, while high-growth firms prefer to use internal resources. Additionally, Abor and Biekpe (2009), as well as Sardo and Serrasqueiro (2017), claim that the most profitable firms employ less short- and long-term debt to fund their routine operations and expansion. Because older small businesses may generate more internal finance, their long-term debt is reduced. SMEs with a higher share of fixed assets are more likely to take on long-term debt than SMEs with a smaller percentage of fixed assets (Abor and Biekpe, 2009). Furthermore, Abor and Biekpe (2009) state that SMEs in Ghana prefer to use short-term debt over long-term debt, and they seek to finance fixed assets with long-term debt and current assets with short-term debt. More mature and larger SMEs, as well as those with faster growth rates and more innovative ideas, use a variety of funding mechanisms, including bank loans, equity, and government-subsidized financing. Smaller service SMEs tend to rely more on internal funds and short-term funding. (Moritz, Block and Heinz, 2016; Beck, Demirguc-Kunt and Maksimovic, 2008; and Rupeika-Apoga and Danovi, 2015). Boscoianu, Prelipean, Calefariu, and Lupan (2015) propose Venture Capital Fund and Private Equity Fund as innovative vehicles for SMEs funding.

The Financing Obstacles faced by SMEs

The growth of SMEs is positively and significantly correlated with financing access. It helps SMEs develop successful enterprises, increase earnings, and mitigate external challenges (Okello, Ntayi, Munene and Malinga, 2017; and Quartey, 2003). The financing access of SMEs is influenced by factors such as credit risk (Quartey, 2003), collateral requirements, financial sector structure, small business support services, and awareness of funding alternatives (Osano and Languitone, 2016). Furthermore, according to Rupeika-Apoga (2014), the relevance of financial access varies greatly depending on the business climate, country level of development, and economic prospects. Small businesses have less formal access to external capital and suffer greater expansion limits (Beck and Demirguc-Kunt, 2006; Rupeika-Apoga, 2014; and Rupeika-Apoga and Danovi, 2015). In the SMEs sector, there are liquidity gaps. The issue of funding is still a big stumbling block for SMEs' survival and growth (Abe, Troilo and Batsaikhan, 2015). SMEs continue to have difficulty in obtaining funding for their operations. According to Tian and Lin (2019), one of the key obstacles preventing organisations from having strong environmental performance is financial restraints. The government's assistance initiatives are ineffective in overcoming the financial barriers that SMEs encounter (Klonowski, 2012). The ownership structure, the amount of revenues, the firm's size and age, as well as the sector in which it operates, all have an impact on financing (Coluzzi, Ferrando and Martinez-Carrascal, 2012; and Beck, Demirguc-Kunt, Laeven and Maksimovic, 2006). Financial constraints have a negative impact on SMEs' export propensity and innovation (Forte and Moreira, 2018; and Madrid-Guijarro, Garcia-Perez-de-Lema and Auken, 2016).

According to the studies by Naidu and Chand (2012); Kathuria and Mamta (2012); Ahmad (2012); Coluzzi, Ferrando and Martinez-Carrascal (2012); Biswas (2014); Bilal and Mqbali (2015); Rao, Kumar, Gaur and Verma (2017); and Sadeghloo, Qeidari, Salehi and Jalali (2018), the inability of obtaining internal and external financing, requirements of collateral securities, the complex processes of lending institutions like unnecessary formalities and lengthy paperwork, lack of credit alternatives, asymmetrical information, self-avoidance of external financing, establishment costs, rising cost of project financing, high cost of raw materials, equipment and maintenance, inadequate capital, scrap losses, low sales volume, higher wholesale price, high transportation costs, centre and state taxes, high interest rates and insurance costs and non-recovery of debtors payment on time are important problems faced by MSMEs. Some other issues like lack of awareness and understanding regarding the financial options, lack of friendly business environment, government interference, lack of training programmes and government support, and irregular policy changes are noted by the studies of Rao, Kumar, Gaur and Verma (2017); and Ahmad (2012). Moreover, the cost of training and development, as well as the cost of promotion and marketing, are less major barriers for MSMEs' owners and managers. According to Burgstaller and Wagner (2015), enterprises have restricted funding options, thus they rely more on internal capital. Furthermore, according to Bhalla and Kaur (2012), banks are not interested in financing the needs of SMEs. Information scarcity and risk in SMEs are two major problems that prohibit commercial banks from lending to SMEs. In more bank-dependent financial systems, the bank's greater market power raises the funding limits for SMEs (Ryan, O'Toole, and McCann, 2014).

Many researches have offered ideas for resolving the finance issues that SMEs face. The state of SMEs finance in India, according to Kumar and Rao (2016), needs to be addressed. To overcome the difficulties of SME funding, new financing options should be investigated. Credit guarantee systems lower the knowledge asymmetry between banks and SMEs, allowing more loans to be made to SMEs (Yoshino, Emeritus and Taghizadeh-Hesary, 2018). Long-term relationships with banks, public loan grants, the development of capital markets, the reduction of information asymmetries, the maximisation of working capital, and the establishment of a four-level financial system all help SMEs overcome their financing challenges (Madrid-Guijarro, Garcia-Perez-de-Lema and Auken, 2016; Hahn, Kwon and Yun, 2016; Xiang and Worthington, 2017; Abe, Troilo and Batsaikhan, 2015; and Beck and Demirguc-Kunt, 2006). Similarly, according to Khan (2015), to fulfil the demands of SMEs, the government should simplify the funding procedure for the formal banking sector. The listing of SMEs will help them raise financing, allowing them to expand, grow, and achieve their goals (Kulkarni and Chirputkar, 2014). There are fewer funding challenges for firms in nations with higher GDP per capita, more liquid stock markets, better levels of development of financial intermediaries, and more effective legal systems. (Beck, Demirguc-Kunt, Laeven and Maksimovic, 2006).

CONCLUSION

Our study's objective is to look into financing decisions of small and medium enterprises. For this, we reviewed through literature on financing decisions. A total of 130 research articles were categorised using databases, publication year, journal publishing, university/institutions contribution, country (the study's origin), author, sector, research type, and top cited articles. According to the classification, the Emerald database published the most publications on SMEs, accounting for about 38 percent of 130 reviewed papers. From 2010 until the present, over 71% of all research articles have been published. This rising percentage of articles published has drawn attention to the growing trend of study in this field. Surprisingly, the top ten countries accounted for over 60% of all research articles on SMEs; the Springer database's Small Business Economics Journal published the most articles (10.69%); the University of Ghana Business School in Ghana contributed four research papers; the greatest number of research articles with two authors was 42.31 percent; and the majority of research articles on SMEs were multi-sector. There were 70 study publications that only used secondary data and 46 research papers that only used primary data, accounting for 86.15 percent of total research. For citation purposes, Google scholar citation information has been used. As per the table, “Small and medium-size enterprises: Access to finance as a growth constraint” by Thorsten Beck and Asli Demirguc-Kunt (2006) article published in Journal of Banking & Finance (Elsevier) cited highest 1783 times placed in the top.

We were able to determine what SMEs' financing preferences are, how they finance themselves, and what challenges they confront while financing after examining the literature. The research also uncovered the elements that influence financing decisions. Age, profitability, size, growth, and tangibility are the primary elements that, according to the statistics, establish SMEs’ capital structure. The effects of these factors have been researched based on the financial leverage of SMEs. The researchers' chosen financial leverage measurements are the overall, long-term, and short-term leverages. Age, experience, gender, ethnicity, and education are some of the attributes and personal traits that have a higher influence on financial decision-making. The majority of SMEs use short-term loans to fund their demands. Internal finances, short-term bank loans, supplier credit, co-operative finance, and leasing are all common financing options for businesses. The ownership structure, owner education, business size, growth objectives, age, the industry in which the business operates, household tangible assets, and high interest rates in the credit market are all significant determining factor of how small, and medium enterprises choose to finance their operations. Firms prefer internally generated funds, according to the research. Despite the fact that They seldom employ formal short- and long-term funds; instead, they favour them. As an alternative, they rely on trade credit, cash from family, friends, and relatives, as well as funding from money lenders. As a result, SMEs usually turn to unofficial rather than formal sources of funding. Short-term funding is preferred over medium- and long-term finance, according to research. SMEs usually struggle with a shortage of cash and need money for ongoing operations; therefore, they rely on short-term borrowing. SMEs continue to have difficulty in obtaining financing for their operations. The inability of obtaining internal and external financing, requirements of collateral securities, the complex processes of lending institutions like unnecessary formalities and lengthy paperwork, lack of credit alternatives, asymmetrical information, self-avoidance of external financing, establishment costs, rising cost of project financing, high cost of raw materials, equipment and maintenance, inadequate capital, scrap losses, low sales volume, higher wholesale price, high transportation costs, centre and state taxes, high interest rates and insurance costs and non-recovery of debtors payment on time are important problems faced by MSMEs.

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