

Financing preference of listed small and medium enterprises (SMEs): evidence from NSE Emerge Platform in India

NSE Emerge
Platform

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Received 27 April 2020
Revised 2 August 2020
6 September 2020
Accepted 12 September 2020

Abstract

Purpose – The study aims to empirically evaluate the effect of internal factors of small and medium enterprises (SMEs) on their financing choices. It also examines the financing practices of listed SMEs in India and finds out whether the financing patterns of listed SMEs follow the established theories of corporate finance.

Design/methodology/approach – For this study, 113 SMEs listed on National Stock Exchange Emerge Platform are considered for the period from 2014 to 2018. Panel data regression is applied. The control group has been identified by using the propensity score matching approach. Qualitative information has been collected from the bank officials and the promoters of listed SMEs.

Findings – The study reveals that for meeting financial requirements, listed SMEs initially create current liabilities followed by usage of total reserves. Thereafter, they look for short- and long-term borrowings for further funding options. No significant change is observed in the financing pattern of listed SMEs as compared to their non-listed matched firms. The study suggests that no single theory, including pecking order theory or trade-off theory, could explain the behaviour of SMEs financing completely.

Research limitations/implications – The financing pattern of SMEs can be of great interest to various stakeholders such as government and lenders. As no significant boost is observed in debt financing post listing, this aspect needs to be evaluated by the stakeholders.

Originality/value – This study is significantly different from the existing studies, as it attempts to evaluate the impact of listing on overall financing pattern of SMEs in India. This is also one of the very few studies that uses both quantitative and qualitative information to examine the same.

Keywords Propensity score matching, Pecking order theory, Trade-off theory, Panel data regression, NSE Emerge Platform, SME financing

Paper type Research paper

1. Introduction

In recent times, small and medium enterprises (SMEs) [1] have become very significant in the global business scenario because of their strategic importance in the economic development and inclusive growth (Edmiston, 2010; Srinivas, 2013; Pawar and Sangvikar, 2019). Their contribution to industrial production and exports make them the growth engines of any economy. They also play a very significant role in poverty reduction by creating substantial employment opportunities among the have-nots (Green *et al.*, 2006; Ayyagari *et al.*, 2011; Newman *et al.*, 2013). Their large contribution to job creation and

