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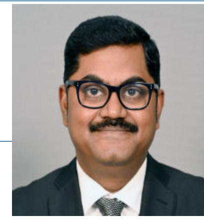

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Financial preferences of listed SMEs in India: An empirical study

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ABSTRACT

Small and Medium-sized Enterprises (SMEs) play a very significant role in boosting sustainable economic growth and development of any country. The present study examines various firm-specific determinants that have an impact on the financing choice of the listed Indian SMEs. It also studied the financing practices of the listed SMEs in India and tried to find out if their financing pattern follows the established theories of Corporate Finance. The study selected 113 SMEs listed on the NSE Emerge Exchange for the period between 2014 and 2018. To examine the problem, empirical analysis is done with the help of panel data regression. The study finds that for meeting financial requirements of listed SMEs, they prefer current liabilities first, then total reserves, thereafter short-term borrowings and lastly the long-term borrowings. Among the independent variables chosen based on an extensive literature survey, most of them are statistically significant but are depicting lower explanatory power. Hence, it leads to the possibility of some other firm-specific factors or macroeconomic factors being more relevant in deciding the listed firm's financing choices. The study concludes that no single theory like Pecking Order Theory (POT) or Trade-Off Theory (TOT) can explain the financing behaviour of listed SMEs completely. It contributes to the extant literature on listed SMEs by attempting to examine the impact of listing on the financing patterns of the SMEs.

Introduction

Small and Medium-sized Enterprises (SMEs) have been globally recognized for promoting sustainable economic growth and development across nations (Ariyo, 2000; Srinivas, 2013). SMEs are defined as a distinct category of firms which are quite different from large companies. Capital constrains, limited managerial expertise, lack of information and other intangible assets are much more in SMEs as compared to large companies (Hollenstein, 2005; Pradhan & Sahu, 2008). However, SMEs have greater operational flexibility, faster decision making and also niche business strategy when compared to large companies (Zucchella & Palamara, 2006). They are considered the growth engines of any economy for their contribution to industrial production and exports (Asare, 2014). SMEs' contribution in poverty alleviation is also very crucial considering their potential to create employment opportunities (Green et al., 2006). India is also of no exception to this phenomenon. With more than 63.4 million SMEs all over the country, it employs more than 120 million people. SMEs in the manufacturing sector alone produce more than 6,000 different types of products and account for approximately 45% of the total industrial production in India. Similarly, their total contribution to the service sector is around 31%. As of now in India, SMEs are contributing approximately 29% to India's GDP and 49% in country's export.

Like any other organization, it is important for SMEs also to have the availability of finance and access to various financing sources on suitable terms and conditions. This is vital for growth and development of SMEs (Osano & Languitone, 2016; Shikumo & Mwangi, 2016). However, there is a substantial number of existing literature identifying the financial issues faced by SME sector both in developed as well as developing countries (Beck et al. 2011; Jagoda & Herath, 2010). SMEs in many cases are not able to keep pace with dynamic technological innovation and are often found using obsolete technology because of the fund constraints (Abdulsaleh, 2015; Yoshino & Taghizadeh-Hesary, 2018). OECD report (2016) also states that many SMEs are facing credit constraints though there is an improvement in SME

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