

Factor Influencing Access to Debt Financing in the Business Sector

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Abstract

This study used descriptive research design and data have been collected by survey method from the study area. All the customers of different banks situated in Birendranagar Surkhet were taken as the population of the study. Among the total population, only 180 customers of commercial banks have been selected by using the convenience sampling method. The questionnaire was a tool for data collection. Regression analysis was used to measure the factors influencing access to debt financing in the business sector. Findings indicate that financial information, experience, collateral requirements, and managerial competence have a significant positive impact on debt financing in the business sector in Birendranagar Surkhet.

Keywords: collateral requirements, debt financing, financial information, managerial competence.

1. Introduction

Small and medium-sized businesses (SMEs) are widely recognized as viable engines for boosting economic activity and creating jobs. The ability of SME operations to address socioeconomic issues and thereby increase Gross Domestic Product has grown in a significant number of economies worldwide (Bature et al., 2020; Kira & He, 2012). It is challenging to start or grow a firm with merely money. Services including insurance, transaction services, self-employment services, and guidance for launching small enterprises are necessary (S.A. et al., 2022). In debt finance, borrowers and lenders come to an agreement on a set interest rate that must be paid back for the loan within a certain time frame. (Osano & Languitone, 2016). It seems that most research have focused on bank financing loans, hence information about the rates at which SMEs get funding from alternate sources is few (Nanyondo, 2017). Most research on debt financing have been conducted using data from developed nations, with a greater emphasis on nonfinancial businesses in the private sector (Nyamita et al., 2014). the precise elements affecting debt profitability, including liquidity, non-debt tax shielding, asset type, firm size and growth, and bankruptcy likelihood. Debt financing is also thought to be influenced by other corporate characteristics, such as corporation tax rates, company risk, capital market accessibility, gender of the finance manager, and board of directors makeup (Nyamita et al., 2014).

Numerous factors influence the number of people who take out a mortgage, such as property values, interest rates, income levels, operational expenses, the mortgage procedure, and bank size (Olawumi et al., 2019). SMEs' access to bank loans is influenced by the findings of their financial intelligence inspections and the accuracy of the financial information that the company provides. SMEs with sufficient income and cash generating capacity, a solid equity basis, and a low debt load also have easier access to bank funding. Long-standing clientele of the bank and more established businesses find it easier to get bank loans. Furthermore, companies with forward-thinking predictions and those that create a good impression on bankers during on-site inspections are prime candidates for bank loans (Erdogan, 2018). Finance accessibility is essential for company growth. Without sufficient funding, innovation and investment are not feasible. One of the primary barriers to the expansion of many organizations, especially small and medium-sized firms (SMEs), is the difficulty in obtaining financing. Reducing this funding gap in low-income nations should thus boost the motivation to establish SMEs, which will enhance economic development and lead to an increase in job creation. Enhancing SMEs' access to financing is also crucial for boosting business efficiency and performance (Menberu, 2018). In order to ensure their competitiveness and the competitiveness of the country as a whole, SMEs may get finance to make profitable investments to boost their business fortunes and purchase the newest technology. The absence of price and non-price barriers in the financial services industry is another definition of it (Ssentamu, 2016).

Debt financing is also thought to be influenced by a number of other factors, including business profitability, size and growth, asset type, non-debt tax shields, liquidity and bankruptcy probability, tax rates, business risk, access to capital markets, gender of the finance manager, and board composition (Nyamita, 2014)

2. Literature of Review

This study examines the impact of economic goal orientation, credit experience, financial literacy, and family control on financial attitudes towards debt financing decisions, with family commitment as a moderating variable. The study's participants were 123 small and medium company owners or managers located in Yogyakarta's Sleman Regency. According to test findings, views toward debt financing choices are positively and significantly influenced by family control, financial literacy, experience with creditors, and an orientation toward economic objectives. (Heru et al., 2020).

This study investigated the impact of various company and entrepreneurial attributes, such as age, size, management education, business plan, business type, and gender, on SMEs' capital access. Data was analyzed using descriptive statistical techniques and econometric statistics to understand the variables influencing banks' financial assistance. The research found that SMEs often struggle to raise finance, and secondary data was gathered from various sources. The study also examined the ability of SMEs to access debt finance from commercial banks in Kosovo, using questionnaires with 500 SMEs. The findings suggest a correlation between SMEs' size, age, and business strategies and their ability to secure loans from Kosovo banks (Nure, 2021).

Increased accessibility to the debt markets lessens the impact of uncertainty on business strategy. Researchers used the state-by-state implementation of anti-recharacterization statutes in the United States to arrive at this conclusion. Because this legislation strengthened creditors' rights to reclaim collateral pledged in SPVs, they improved enterprises' capacity to borrow. The methodologies used in this study are not described in depth. It does, however, note that the authors investigate the connection between uncertainty, loan availability, and corporate cautious behavior using empirical research and data on companies' SPVs. In order to bolster the

interpretation of their findings, they furthermore provide robustness tests. Following the rules' enactment, companies with higher levels of uncertainty tend to keep less capital and instead increase dividends, borrowing, and investments in intangible assets. According to our research, more access to the loan markets reduces businesses' tendency to take precautions and protects them from uncertainty swings, which encourages them to invest cash and other internal resources in intangible capital (Favara et al., 2021).

Salehi et al. (2018) claimed that management access to debt finance and profitability quality: empirical evidence from Iran the aim of this work is to create a relationship between two areas of research that are not often studied, namely access to internal and external debt finance and earnings quality (EQ). The authors specifically want to determine if a company's ability to get bank and private debt funding is substantially correlated with the quality of its reported profits. Panel data analysis is used by the authors to test their assumptions on a sample of 108 firms that were listed between 2006 and 2015 on the Tehran Stock Exchange (TSE). EQ and management access to external (bank) debt financing have a strong and positive link, according to the findings, which align with the main predictions. Furthermore, the results show that EQ is inversely related to internal debt financing, as shown by variations in company retained profits.

Badi and Ishengoma (2021) have studied at how Tanzanian SMEs performed in relation to their ability to get loan financing. In order to get loan facilities from official financial institutions, SMEs assisted by Private Agricultural Sector Support (PASS) provided data for the research. Out of the 152 respondents that received questionnaires, 115 respondents contributed data for the research. Standard Multiple Regression was used to statistically evaluate the data in order to test the hypothesis that access to debt financing has a beneficial impact on the performance of SMEs. The findings show that SMEs' profitability is impacted by their capacity to get debt financing. Additionally, it was discovered that ROA had stronger impacts than GPM and ROE. This suggested that SMEs are more profitable in relation to their total assets when they have access to loan financing. Thus, it can be said that having access to debt financing is crucial to the development and success of SMEs.

3. Conceptual Framework

Conceptual framework is constructed based on the objectives of the research and from the variables taken from related studies. Figure 1 depicts the connection between the independent and dependent variables.

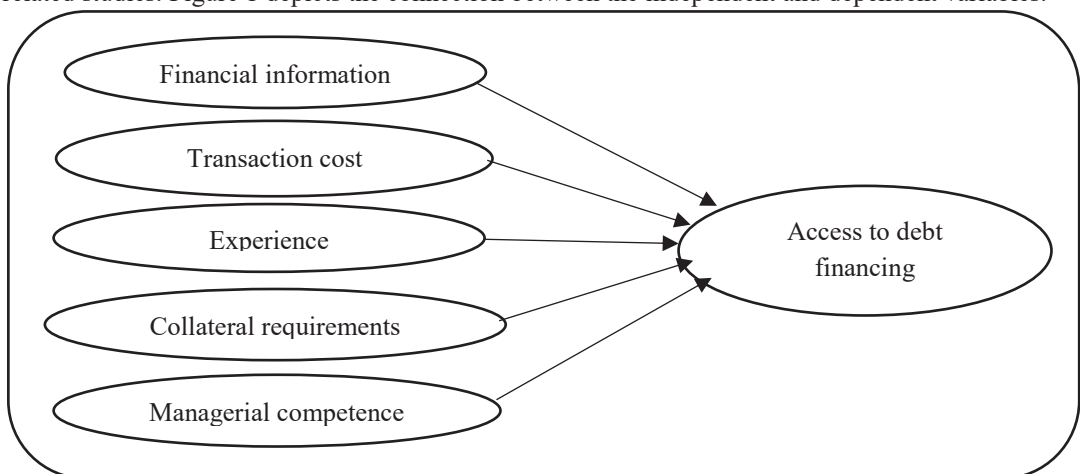


Figure 1: *Conceptual Framework of the Study*

4. Objectives of the Study

The general objective of this study is to find out the factors influencing access to debt financing in the business sector in Birendranagar Surkhet. The specific objectives of this study are as follows:

- i. To find out the impact of financial information on access to debt financing.
- ii. To identify the impact of transaction cost on access to debt financing.
- iii. To access the impact of experience on access to debt financing.
- iv. To examine the impact of collateral requirements on access to debt financing.
- v. To explore the impact of managerial competence on access to debt financing.

5. Research Hypothesis

Based on the description of the background and research objectives, the following alternative hypothesis have been proposed to test the relationships between the variables:

- i. H_{A1} : Financial information has significant effect on access to debt financing.
- ii. H_{A2} : Transaction cost has significant effect on access to debt financing.
- iii. H_{A3} : Experience has significant effect on access to debt financing.
- iv. H_{A4} : Collateral requirement has a significant effect on access to debt financing.
- v. H_{A5} : Managerial competence has significant effect on access to debt financing.

6. Research methodology

The Surkhet district has been chosen as the study's site. Using the convenience sampling approach, 180 respondents were selected as the sample size from the entire population of Birendranagar Surkhet. Primary data were employed to fulfil the desired purpose of the investigation. The study is grounded on positivist philosophy and used a quantitative research methodology. A questionnaire was used to assist gather data from the research region. A Likert scale was used to compose the complete questionnaire. The statistical technique of regression analysis was used to analyze the collected data. It is used to illustrate how the independent and dependent variables are related to one another. Regression, percentage, and frequency analysis were run on the information.

7. Data Analysis and Results

Table 1

Demographic Profile of the respondents

SN	Demographic Variables	Category	Frequency	Percentage	Cumulative Percent
1	Gender Status	Male	93	51.67	51.70
		Female	87	48.33	100.00
2	Age Status	upto 25 Years	54	30.00	30.00
		26 - 40 years	91	50.56	80.60
		41 - 55 Years	26	14.44	95.00
		56 years and above	9	5.00	100.00
3	Cast	Bramham	45	25.00	25.00
		Chettri	95	52.78	77.80
		Janajati	28	15.56	93.33
		Dalit	12	6.67	100.00

4	Marital Status	Married	96	53.33	53.30
		Unmarried	84	46.67	100.00
5	Religious	Hindu	166	92.22	92.22
		Buddhist	3	1.70	93.90
		Cristian	11	6.10	100.00
6	Educational Level	Upto SLC	1	0.60	0.60
		Secondary Level	67	37.20	37.80
		Bachelor Level	79	43.89	81.70
		Above Bachelor Level	33	18.33	100.00
7	Business Experience	Upto 5 Years	85	47.22	47.22
		6-10 Years	75	41.67	88.89
		11-15 Years	1	0.56	89.44
		16 Years and above	19	10.56	100.00

Table 1 covers the demographic status of the respondents. Concerning the gender status, out of the total, respondents, 51.67 percent were associated with male and rest 48.33 percent were associated with female gender. Observing the data, it can be known that majority of the respondents were belonged to the male gender.

Similarly, as per the age status, 30 percent of respondents were the age of upto 25 years, 50.56 percent were the age of 26-40 years, 14.44 percent were the age of 41-55 years and remaining 5 percent were belonged to 56 years and above years out of the total respondents.

Similarly, as per the cast, 25.00 percent of respondents were the age Brahman, 52.78 percent were the Chettri, 15.56 percent of respondents were the age Janajati and remaining 6.67 percent were belonged to Dalit out of the total respondents.

In the marital status, 53.33 percent of respondents were having married marital status, and the rest 46.67 percent of the respondents were belonged to unmarried marital status out of the total.

In terms of religious, 92.22 percent of respondents were having Hindu, 1.70 percent of respondents were having Buddhist and the rest 6.10 percent of the respondents were belonged to Cristian out of the total.

In the same way, concerning the educational status, 0.60 percent of respondents were Upto SLC, 37.20 percent of respondents were Secondary Level, 43.89 percent were bachelor level and rest 18.33 percent respondents were having Degree and Above level. The data indicates that most respondents had bachelor level.

In the context of business experience, out of the total respondents, 47.22 percent respondents were of Up to 5 years, 41.67 percent were of 6-10 years, 0.56 percent were of 11-15 and the rest 10.56 percent of the respondents belonged to 16 years and above. Hence, it can be said that most of the respondents were 6-10 years.

Table 2*Summary model*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.355 ^a	0.126	0.101	0.40759

a. Predictors: (Constant): Financial information, transaction cost, experience, collateral requirements, managerial competence

Source: Survey Data 2023

Table 2 reveals the R² value, which represents the proportion of variance in debt financing explained by financial information, transaction cost, experience, collateral requirements, and managerial competence, explaining about 13% of the variation in factors influencing access to debt financing in the business sector.

Table 3*ANOVA*

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	4.173	5	0.835	5.024	.000 ^b
Residual	28.907	174	0.166		
Total	33.080	179			

a. Dependent Variable: Debt financing in business sector

b. Predictors: (Constant): Financial information, transaction cost, experience, collateral requirements, managerial competence

Source: Survey data, 2023

In the ANOVA analysis, Table 3 shows a "Sig" value of (.000), which is below the threshold of .05 in this situation. Consequently, there exists a substantial correlation between the independent and dependent variables at a significance level of 5%. The study reveals that financial information, transaction cost, experience, collateral requirements, and management competence have a substantial beneficial influence on loan financing in the business sector in Birendranagar Surkhet.

Table 4*Coefficients*

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta		
(Constant)	1.52	0.763		1.992	0.048
Financial information	0.286	0.11	0.194	2.592	0.01
Transaction cost	-0.001	0.117	0	-0.006	0.996
Experience	0.024	0.086	0.02	0.275	0.784
Collateral requirements	0.151	0.078	0.154	1.926	0.056
Managerial competence	0.196	0.094	0.156	2.081	0.039

a. Dependent Variable: Debt financing

Source: Survey data, 2023

The result of unstandardized coefficient (Beta) value of all independent variable except transaction cost is positive which indicate that financial information, experience, collateral requirements, and managerial

competence have a positive impact on debt financing in Birendranagar Surkhet. It shows that as financial information, experience, collateral requirements, and managerial competence all rise by one unit, debt financing in Birendranagar Surkhet rise by 0.286, 0.024, 0.151, and 0.196 units, respectively.

Table 5*Summary of hypothesis*

Hypothesis No.	Hypothesis	Support or Reject Hypothesis
H _{A1}	Financial information has significant effect on access to debt financing.	Support
H _{A2}	Transaction cost has significant effect on access to debt financing.	Reject
H _{A3}	Experience has significant effect on access to debt financing.	Reject
H _{A4}	Collateral requirements have significant effect on access to debt financing.	Reject
H _{A5}	Managerial competence has significant effect on access to debt financing	Support

8. Conclusions

This research looks at a number of variables that affect a company's choice to take out debt financing, particularly bank loans. The financial data, transaction costs, experience, collateral needs, and management competency are the only factors that are the subject of this study.

The research also shows that a firm's access to debt financing and the quality of its financial records are positively correlated. The information a company gives a lender shows how well-equipped the latter is to handle the duties pertaining to interest and principal repayments when they become due. According to the research, there was a greater rate of drop in debt financing applications for organizations that did not preserve financial information.

One of the elements influencing debt financing availability, according to the research, is company experience. Business entrepreneurs can persuade others to support their ventures with ease when they have expertise in the industry. Therefore, the company should make the most of this expertise in order to get debt financing.

According to the research, one of the variables influencing debt financing availability is collateral security. A company is more likely to be granted financial requests for debt financing if it promises collateral security. It was clear that a necessary condition for MSEs to be successful in obtaining debt financing from financial institutions is the necessity for collateral security.

There is a favorable correlation between management skill and debt financing, according to the results of regression analysis. When it came to debt financing, lenders gave preference to company owners with higher levels of education and job experience, and these owners used more debt financing in their operations.

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