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The Role of Access to Finance, Learning Orientation, and Innovation on the Small and Medium Enterprises Performance: Moderating Effect of Business Risk

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Abstract

The study aims to identify the role of Access to Finance, Learning Orientation, and Innovation on the performance of SMEs. The moderating effect of business risk also examined the relationship of Access to finance, learning orientation, innovation, and Small and Medium Enterprises (SMEs). For this purpose, Data is collected from 300 SMEs in the textile sector operating in Faisalabad, Pakistan. Primarily, the data is analyzed to check the normality and multicollinearity, and then Structure Equation Modeling (SEM) is developed in the Smart PLS-3. The significant contribution of the present research study is to identify the moderating effect of business risk on the relationship between Access to finance, learning orientation, innovation, and SMEs performance. The findings revealed that Access to finance, learning orientation, and innovation have a positive and significant impact on the performance of SMEs. Moreover, results also show the contribution of business risk, which moderates the relationship between Access to finance, innovation, and SMEs performance. However, business risk does not affect the relationship between learning orientation and SMEs performance. The practitioner and policy maker would be the beneficiary of the study while making policy and strategic decisions of the SMEs.

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1 Introduction

SMEs have an indispensable role in the economy's growth, showing a distinct part in employment generation and helping improve the existing industrial structure and economic growth worldwide. The SME's role in the developed economies is key to boosting economic growth (Long & Dong, 2017; Surya et al., 2021). However, unlike other developing economies, the SME sector has not yet gained adequate importance in Pakistan (Aftab et al., 2022; Ullah et al., 2016). The textile sector of Pakistan, in particular, is facing a problem with Access to Finance (AF), which is an integral source in creating some of the other resources needed to enhance SMEs' performance.

SMEs work as an efficient tool to create employment opportunities, contribute towards economic growth, and eventually reduce poverty in a country (Amoah et al., 2022; Matamanda & Chidoko, 2017). The performance and output of SMEs mainly depend upon several financial, intangible, and human resources (Liu et al., 2022; Manafi & Subramaniam, 2015). However, to achieve optimum performance, it is necessary to trigger the motivation to implement core strategies (Adomako & Nguyen, 2020; Srimulyani et al., 2023). Moreover, the improved performance of SMEs generates more financial resources and increases the profit and market share of the textile industry. SMEs' performance contributes to the economy's development, such as growth in the GDP, per capita income, employment opportunities, new markets, exports, and new enterprises (Pulka et al., 2018; Pulka et al., 2022).

Furthermore, access to internal or external resources enables an enterprise to grow because it creates social and economic wealth (Pulka et al., 2022; Rey-Marti et al., 2016). SMEs are the apex institution of SMEDA. In its 2007 policy, SMEDA defines an SME as “an organization that contains up to 250 employees, having PKR 25 million approximately paid-up capital and annual sales of almost PKR 250 million” (Government of Pakistan, 2017).

In the era of globalization, enterprises now have to face many issues, such as lowered sales margins, the commercial status of the market, and vulnerability to different risks while trying to achieve a competitive advantage (Allameh & Khalilakbar, 2018). Apart from these, the learning orientation and knowledge behavior also play an important role in reducing team pressure and creating space for creativity in the firm (Khedhaouria et al., 2017; Koivula et al., 2023). In addition, the learning orientation serves as a roadmap to get a competitive edge in the market and positively impacts the financial performance of SMEs (Amin, 2015; Amoah et al., 2022; Lestari et al., 2018; Shariff et al., 2017).

SMEs in developed countries have overcome such issues, and as a result, their performances are better than those in developing economies like Pakistan. Presently, SMEs in Pakistan are facing the abovementioned problems and are performing below par, affecting their efficiency and output.

The textile industry is the backbone of Pakistan’s economy, contributing 60% to the total exports and 8.5% of the GDP. Pakistan is Asia's eighth-biggest cotton exporter and the fourth-biggest cotton producer. However, the contribution was 9.5% to GDP and 37% of the industrial labor workforce (Ali et al., 2020; Hussain et al., 2022). The contribution of small and medium-sized enterprises (SMEs) to the textile sector's production can vary by country and region. In some countries, SMEs do play a significant role in textile production, while in others, larger companies may dominate the sector (World Bank Group, 2011). However, the portion of the textile SMEs earning is minimal compared to the SME’s sector in the South Asian economies (Khan & Abasyn, 2017).

The performance of the textile sector decreased gradually over the last five to seven years. Faisalabad, the second largest city in Punjab, covers a major portion of the textile industry.

Moreover, Faisalabad is the textile hub, and 70% of the textile industry is based in this city (Ullah et al., 2016). Pakistan has been sharing enormous proportions of total cotton produced around the globe despite the downward trend in the export of textiles (Abtew et al., 2017; Arshad et al., 2022).

Many units were deliberately shut down in Faisalabad, which indicates that the textile sector is performing below par, which is an alarming situation for the country. To enhance the current performance of SMEs, the selection of these variables is based on previous studies, which have persistently highlighted their importance in enhancing the performance of SMEs around the globe (Zarrouk et al., 2020). This study aims to provide these SMEs with a roadmap to increase their performance, eventually benefiting Pakistan's economy.

1.1 Problem statement

SMEs play a significant part in the growth of any economy (Batrancea, 2022; Dar et al., 2017). In the case of Pakistan, approximately 90% of SMEs constitute the total enterprises, which contribute nearly 40% to the GDP and employ 80% of the non-agriculture workforce (Zafar & Mustafa, 2017). According to research, 80% of SMEs fail to perform at their optimum level and are liquidated within four years of their startup (Ma'aji et al., 2023; Ullah et al., 2016). The failure rate of SMEs in their initial stage is 90 to 95% (Mahmood et al., 2017). This indicates that some business risk is involved, affecting the SMEs' performance (Gill & Murad, 2016). A study by Hussain et al. (2018) reports that approximately 300,000 power looms in Punjab and 2800 units were shut down only in Faisalabad, leaving about 30,000 workers unemployed (Hussain et al., 2018).

The existing literature on Pakistan's industrial sector highlights that SMEs have significant financial and other resource constraints compared to the large enterprises in the formal sector (Ahmad et al., 2022; Bagh et al., 2017). Access to Finance (AF) is one of the major problems for SMEs, as only 6% of banking credit is held by SMEs, and approximately 66% is held by large corporations (Raza et al., 2018). Such small-scale enterprises have limited resources to meet the collateral requirement; the high interest rate charged by the financial institutions is also a hindrance to Access to credit (Gassiah & Kikula, 2022). Moreover, learning orientation and innovation have significance in the context of the performance of enterprises (Martinez et al., 2018).

In contrast, another research emphasized an indirect relationship of learning orientation rather than a direct one (Oktavio et al., 2019). Few contrasting studies have also highlighted that Access to Finance (AF) negatively affects the performance of SMEs due to the high interest rate (Maldonado & González-Vega, 2008; Rajamani et al., 2022). Similarly, according to several researchers, there is an insignificant association between Access to Finance (AF), Learning Orientation (LO), Innovation (INO), and the performance of the firm (Nybakk, 2012; Idowu, 2013; Sethibe, 2018). Therefore, there are contradictory results in the previous studies, and there is a major gap in the existing literature. Considering the above factors, moderating variable business risk is applied to investigate the impact of these variables on SMEs' performance. Thus, there is a need to empirically check the effect of Access to Finance (AF), Learning Orientation (LO), and Innovation (INO) on the SME's performance and the moderating role of business risk in their relationship. This research will help SMEs flourish and contribute to Pakistan's economic growth.

1.2 Research Objectives

This research has the following objectives:

- To identify whether there is a significant impact of Access to Finance (AF), Learning Orientation (LO), and Innovation (INO) on the performance of the SMEs.
- To identify whether there is a significant moderating effect of Business Risk (BR) on the relationship between Access to Finance (AF), Learning Orientation (LO), Innovation (INO) and performance of SMEs.

2 Literature Review

The role of SMEs is very dynamic in the economic world, particularly in emerging economies (World Bank Group, 2019). According to the official report of the World Bank, SMEs contribute up to 40% of national income (GDP) and up to 60% of employment in developing economies, and statistics would increase significantly by converting into formal SMEs (Ndiayea et al., 2018). SMEs are the strength of the Asian economy, mostly in Asia and Sub-Saharan Africa. Almost 600 million employees will enter the worldwide staff throughout the next 15 years (World Bank, 2019). However, SMEs face many difficulties in Access to finance, mostly due to inadequate information between suppliers and demanders of finance, which causes the failure of the SMEs (Yoshino & Taghizadeh-Hesary, 2017).

Zarrouk et al. (2020) conducted a significant and extensive study to found that Access to Finance (AF) and Innovation (INO) significantly impacted the growth of 170 SMEs that were part of their study (Mushtaq et al., 2022; Okello et al., 2017; Rajamani et al., 2022). The literature also highlights that despite the significance of SMEs in developed and underdeveloped economies, the overall performance of SMEs is gradually declining because of the lack of Access to finance (Matamanda & Chidoko, 2017).

In the case of Pakistan, the SMEs contribute to the country's economic wealth by producing goods and services. The technological interventions used in small-scale industries play a proper utilization. Often, technology significantly influences the performance of SMEs in Pakistan, which creates new wealth, new markets, and new opportunities (Bagh et al., 2017; Khalid, 2022). The performance of the manufacturing SMEs mainly depends on financing. Therefore, Access to finance's impact was significant on the performance of the SMEs in Pakistan (Asad et al., 2016). A similar study has been conducted to check the various features that affect SMEs' performance, and results indicated that Access to Finance (AF) and innovation positively impact SMEs' performance (Aftab et al., 2022; Haider et al., 2017). The impact of financial constraints on performance SMEs of Sialkot Pakistan data was collected from 150 respondents SMEs. The results indicated that borrowing money from banks and financial institutions is inconvenient for SMEs rather than large firms. Consequently, the financial constraint has a negative impact on performance (Bagh et al., 2017; Liu et al., 2022).

Access to finance (AF) served as “blood” for business growth and performance (Matamanda & Chidoko, 2017). SMEs’ development is vastly dependent on the investment decisions of entrepreneurs. Access to Finance (AF) is a major key factor in the performance of the enterprise, which is used to generate other enriched resources for organizations to get a competitive advantage (Aminu & Shariff, 2016; Rupeika-Apoga & Solovjova, 2017; Pulka et al., 2022). The economy's growth is greatly dependent on the performance of the Enterprises, and the performance of Enterprises is dependent on Access to finance. An empirical was conducted to identify the effect of Access to Finance (AF) on the performance of Latvian SMEs; results revealed that AF had a significant positive effect on the SMEs’ performance (Rupeika-Apoga & Solovjova, 2017; Omondi & Jagongo, 2018). Even in the case of Pakistan, the limited literature emphasizes that Access to Finance positively affects SMEs’ performance because it helps the organizations to function smoothly (Aftab & Naveed, 2013; Aftab et al., 2022).

Learning orientation has a critical role in enhancing the performance of enterprises. The orientation is to learn conceptualized attitudes toward learning organizational values and managerial characteristics to facilitate the learning process (Amin, 2015; Shariff et al., 2017). Learning orientation increases the effectiveness of individuals and organizations, which directly and indirectly impacts performance (Hussain et al., 2018; Hussain et al., 2022). Meanwhile, learning orientation was a unique feature used by the firms to achieve a competitive advantage (Vieira et al., 2017).

Moreover, learning orientation was the antecedent of innovation, which positively affects SMEs' performance (Allameh & Khalilakbar, 2018; Arshad et al., 2022). Innovation was critical in increasing the firms' productivity, efficiency, and competitive advantage (Azeem et al., 2021). Innovation in technology and production methods enhances the performance of the SMEs. Innovation is significant in obtaining a competitive advantage through opportunities and ideas (Ma'aji et al., 2023; Rosman et al., 2018). A study has been conducted in Australia to check the impact of quality knowledge on Innovation (INO) and SMEs' performance. A sample of 291 SMEs was collected, and SEM was applied, and the results revealed that knowledge sharing mediates the relationship between innovation and the performance of the enterprise (Zubielqui et al., 2018).

The Business Risk (BR) is the uncertainty in actual results, defined as the variation in actual outcomes from the assumed outcomes (Fatima et al., 2020; Surya et al., 2021). SMEs continuously meet daily inside and outside adverse events and undesirable operational obstacles that reduce performance. It refers to 'disturbances' in research studies. Among the disturbances, some are expected to create risks to the enterprises in the form of loss of production, manufacturing capability, human resources, market share, and economic losses (Jiang & Tornikoski, 2019; Liu et al., 2022). Moreover, it is finally referred to as a 'risk determinant' based on its correlation with some risk indicators connected to operational, occupational, and economic risks (Kitigin, 2017).

The researcher categorizes the risks as economic, production, legislative, financial, political, credit, environmental, market, legislative, information, and personnel (Belas et al., 2015). The enterprises that have firm risk management strategies manage risk most efficiently. A low systematic approach was unusual for small businesses, which faced average results expected. The enterprises achieved the result through managing risk strategies and effective decision-making. Although managing financial risks was common, very little attention has been given to other risks related to market and technological risks.

The perception of lower risk promotes the adoption of the Internet and joins with many other resources, which generate Internet marketing capabilities and higher performance (Mathews & Maruyamab, 2018). Credit conditions remained very tight for the SMEs compared to larger firms. The risk of inadequate demand (market risk) is presently quite significant. Additionally, newborn SMEs face entrepreneurial risks due to a lack of information, ultimately affecting their performance (Alaei, 2017; Arshad et al., 2022). Business risk moderated the relationship between small firm performance and learning orientation (Brockman et al., 2012; Pulka et al., 2022; Ramadani et al., 2016). The sample of 2012 was collected from European SMEs in Austria, Germany, Italy, Portugal, Spain, Belgium, Sweden, Finland, France, and the UK. The results revealed that business risk had a negative impact on the relationship between SMEs' performance and capital structure (Li et al., 2018). However, the risk of SMEs is not considered a major factor in Pakistan. The literature review shows that business risk has a major effect on SMEs' performance in developed and developing economies. Unfortunately, business risk is ignored in SME performance in Pakistan. The current research is the first study in Pakistan conducted on SMEs' performance with AF, LO, INO, and BR. Thus, this study fills the gap and contributes to the existing literature.

2.1 Underpinning Theory and Theoretical Framework

Wernerfelt (1984) explained the Resource-Based View (RBV), the fundamental theory in strategic management of an enterprise's success. Moreover, the Resource-Based View describes organizations' internal resource limits and how their intense course of action achieves overwhelming proficiency and viable high ground in the market (Kellermanns et al., 2016; Jogaratnam, 2017). The Resource-Based View encourages the strategic use of internal resources to gain competitive advantage. Access to finance is the major internal source that helps attain the performance of the enterprise (Matamanda & Chidoko, 2017; Srimulyani et al., 2023). Without

financial resources, the enterprises could not run their functions smoothly. Moreover, learning orientation and innovation behavior are also internal resources that can improve the performance of the enterprise (Allameh & Khalilakbar, 2018). The Resource Dependency Theory (RDT) describes the dependence on the external resources of the firm, which involves uncertainty. Considering the importance of external resources and factors, this study includes business risk, which are major external factors. Business risk consists of market, financial, strategic, and operational risks. Thus, both theories are taken as underpinning theories for this research.

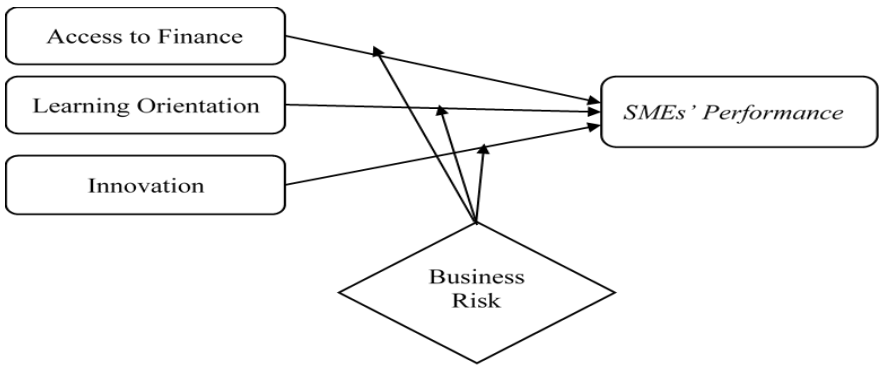

Figure 1: Theoretical Framework

3 Research Methodology

3.1 Research Design

This quantitative study will consider the nature of the research and questions because of its suitability (Mustaghis-ur-Rahman & Jalees, 2015). Additionally, this approach is more appropriate for effectively understanding the participants' responses in a shorter period (Kelley et al., 2003). Moreover, the quantitative approach helps to understand the relationship between the variables. Considering this study's objectives and research questionnaires, the survey technique will be more appropriate for data collection because of the inaccessibility of secondary data on SMEs' performance.

3.2 Population, Sample, and Unit of Analysis

In this research, the total population is the number of SMEs in the textile sector in Faisalabad, Pakistan. Faisalabad's total number of SMEs is 3537 (Ullah et al., 2016). The researchers recommended that studies be conducted in Faisalabad because it is the textile hub of Pakistan (Ullah et al., 2016). The sample size is 300, derived with the formula's help (Sekaran, 2003). Ease investigative strategy is utilized to choose each respondent because it depends upon the openness and accessibility of the respondents. The unit of Analysis is SME firms. Simple random sampling was used for this quantitative research as this is the most suitable sampling technique for the current study. Data was collected through a questionnaire. A five-point Likert scale is used to measure the Access to Finance (AF) and the performance of SMEs (Asad et al., 2016). A five-point Likert scale is used to measure the innovation (Asad et al., 2018). A five-point Likert scale measures the learning orientation (Alegre & Chiva, 2008). A five-point Likert scale measures the business risk (McCrimmond & Wehrung, 1986).

3.3 Analysis and Software

This research is quantitative, and the data is primary. Therefore, Structure Equation Modeling (SEM) is applied in Smart PLS-3 software after analyzing the assumptions like normality and multicollinearity of Structure Equation Modeling (SEM).

3.4 Operationalization of Variable

Access to finance means financial services the financial institution provides in terms of credit (Aminu & Shariff, 2014). Learning orientation is the essential attitude towards learning, which is the managerial and organizational features that encourage the learning process of an organization. It is the commitment of management to support culture to increase learning orientation, which is one of its key values (Amin, 2015). Innovation serves numerous methods, such as containing new and existing technological developments, products, services, and more effective production methods. It also involves the expansion of new methods of distribution. The Business Risk (BR) is the uncertainty in actual results, defined as the variation in actual outcomes from the assumed outcomes (Belas et al., 2015). The study dealt with SMEs. The primary issue of SMEs is informality in Pakistan. Therefore, the performance is measured based on the owner's and manager's perceptions concerning the growth of sales, products, and assets, which have been taken as the performance measure.

4 Analysis of Data

SEM is conducted to evaluate data in Smart PLS to determine the effect of explanatory and moderating variables on explained variables. The Skewness and Kurtosis assess the normality of the variables.

Table 1: Skewness and Kurtosis

Variables	Skewness	Kurtosis
Access to Finance	0.743	2.107
Performance of SME's	0.542	3.869
Innovations	0.538	2.704
Learning Orientation	0.546	2.589
Business Risk	0.521	3.976

4.1 Direct Relationships

A systematic investigation is conducted to analyze data in SEM (structural equation modeling), and PLS algorithms are shown below in the figure. Then, bootstrapping analysis is conducted to check the direct relationship between the independent and the dependent variables. Thus, the R2 value showed 0.613, which means AF, LO, and INO instigated 61% variation. Moreover, the business risk (BR) does not directly influence the dependent variable, as shown in the figure below.

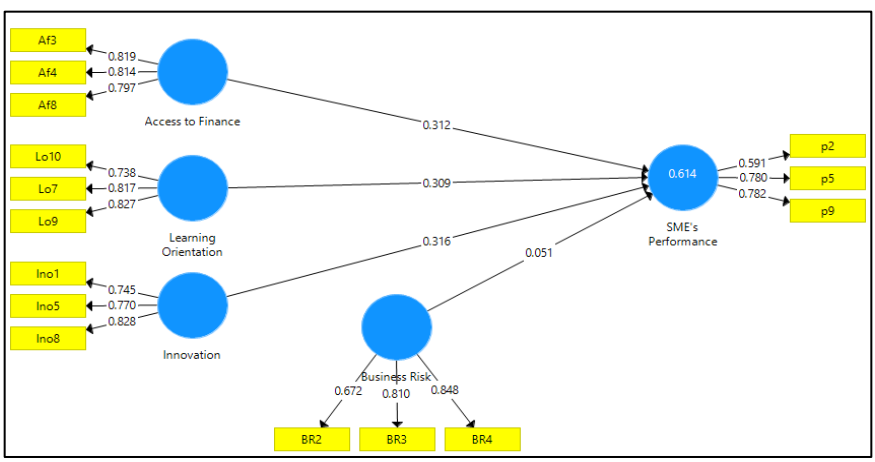

Figure 2: PLS algorithms

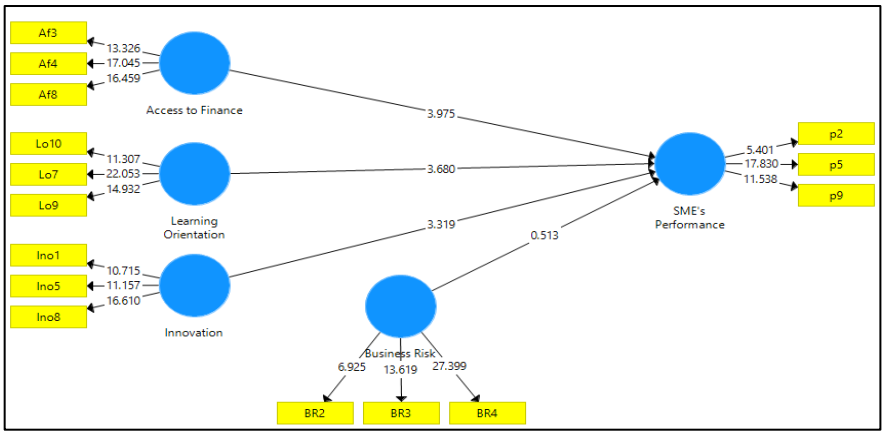

Figure 3: PLS bootstrapping

4.2 Path Coefficients

The results of the SEM's algorithm and bootstrapping process are stated above, and Figure 4.2 indicates the path coefficients of AF, LO, and INO. Figure 2 represents the significance of all paths after examining the bootstrapping procedure. Findings revealed that AF, LO, and positively affect SMEs' performance in the textile sector. Moreover, bootstrapping results of the direct connection between the independent and dependent variables showed that the p values are less than the threshold level. The p-value of AF is (t=4.321; p=0.000), and LO is (t=4.000; p =0.000). Similarly, the p-value of INO is (t=3.790; p=0.000). The table below reveals the values of path coefficients, p-values, and t-statistics.

Table 2: Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Division (STDEV)	t-Statistics (O/STDEV)	p Values
Moderating Effect on Access to Finance → SMEs Performance	0.121	0.112	0.058	2.097	0.36
Moderating Effect on Innovations → SMEs Performance	0.124	0.123	0.058	2.126	0.034
Moderating Effect on Learning Orientation → SMEs Performance	0.079	0.062	0/058	1.374	0.174

4.3 Moderation Test

After examining the direct effect of the dependent variables, the moderation effect was measured. Moderation was evaluated by introducing the interaction term and adding a moderating variable. The figure below indicates the testing of the interaction term in smart PLS moderation algorithms.

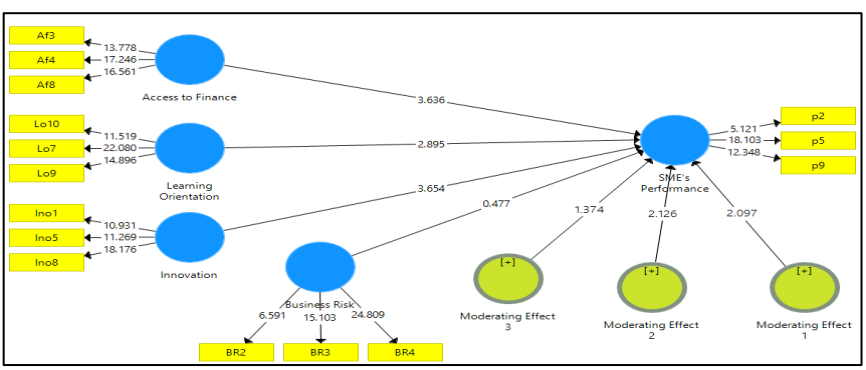

Figure 4: PLS Moderation bootstrapping

Subsequently, introducing the interaction term and moderating variable increased the value of R2. The variation of the dependent variables increased by 3% from 61% to 64%. Furthermore, the values of t statistics showed that the moderating effect is significant, as shown in the table below.

Table 3: Moderation Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Division (STDEV)	t-Statistics (O/STDEV)	p Values
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Hence, Business risk moderates AF (t=2.097; p=0.036) and INO (t=2.126; p=0.034). However, business risk moderates the relationship between LO and the performance of SMEs, as the p-value indicates (t=1.374; p=0.174).

5 Conclusion and Future Direction

This study aims to check the role of AF, LO, and INO on SMEs' performance with the moderating effect of business risk. SMEs make a significant contribution to the growth of the economy. Unfortunately, they fail to perform and close within three to five years of their startup. Therefore, the main objective was to comprehend the role and the contribution of the above variables in the performance of the textile sector's SMEs. The current study is of great significance because it is a pioneer in the textile sector SMEs, as very little research has been conducted in the context of Pakistan. Based on the existing literature, the findings of this study are reinforced. Furthermore, questionnaires were distributed to the managers and owners through email and physical means to fulfill the study's objectives. Structure Equation Modeling (SEM) was applied in smart PLS to analyze the data. Results of the study showed that AF, LO, and INO show positive and significant effects on SMEs' performance, and business roles moderate the relationship among the AF, LO, INO, and the performance of the SMEs.

This research provides fruitful evidence for managers and owners to consider the importance of these variables while developing strategies for the success of the enterprises. The study's results revealed that the variation in the performance of SMEs is explained by 61% by AF, LO, and INO. Moreover, the moderating impact of business risk increases by 3% variation, and the value of R2 increased by 64%. This research shows that managers and policymakers must consider these variables' significant role while making strategic decisions. Thus, the performance of the textile sector can play a significant role in enhancing economic growth. The present research study can also be helpful in the revival of textile SMEs. As textile SMEs perform smoothly, exports will increase, creating stability for the economy and enabling the enterprises to compete internationally. Lastly, the failure rate of the SMEs will also decrease, and investors, both local and foreign, will invest in the textile sector. Thus, all these measures will strengthen the SMEs and economy of Pakistan.

5.1 Contribution of Study

The current study provided insight into SME issues and added to the body of knowledge by incorporating the relationship between AF, LO INO, BR, and SME performance. Because the failure rate of the SMEs in Pakistan was 80% to 90% within approximately five years of their startup. SMEs in Pakistan have major problems in the AF from financial institutions, and due to lack of finance, they fail to perform. Managers and owners are the beneficiaries of this research study, who make strategic decisions by considering the role of these factors supported by the existing literature. Similarly, policymakers can make policies on these factors to promote the SME

sector by providing SMEs with easy access to finance. Thus, SMEs perform more effectively and contribute to the country's economic development.

Therefore, research can contribute to the existing literature by examining the relationship between AF, LO INO, BR, and SMEs' performance. This research study has significantly contributed to the current literature and provided several implications for practitioners. Lastly, the current research contributed to the existing body of knowledge as the business risk is used as a moderating variable in the current study, which has a positive and significant moderating effect on performance. Hence, the current study provides a distinctive framework in the SME sector of Pakistan. Thus, this study has a practical and theoretical contribution.

5.2 Limitations of the Study

This research study significantly contributes to the research area but has many boundaries. This research was restricted to just one city in Pakistan; it would also require checking the model's reliability and effectiveness in the changed scenarios. Another limitation of this study is its focus on a specific industry. Therefore, it could be expanded in other sectors or made general. The time frame is also a significant limitation because more time would be required if it were expanded to other sectors. Understanding the significance of each would also help the entrepreneurs, the government of Pakistan, and microfinance institutions.

5.3 Suggestion for Future Research

This study has achieved its objective of detecting the relationship between AF, LO INO, BR, and SMEs' performance. However, many other features need to be studied. Hence, it also recommends expanding future research studies to the whole country. The researcher can also use qualitative and quantitative approaches to make the findings more authentic. Awareness of the Finance variable could also be included in the model to check the performance of the SMEs and make the model stronger.

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