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MASTER OF ACCOUNTING AND FINANCE

EFFECTS OF FINANCING ON THE FIRM
PERFORMANCE OF MANUFACTURING FIRMS
IN SAGAING CITY

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**EFFECTS OF FINANCING ON THE FIRM
PERFORMANCE OF MANUFACTURING FIRMS
IN SAGAING CITY**

**This thesis is submitted to the Board of Examiners in partial fulfillment of the
requirements for the degree of Master of Accounting and Finance**

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ACCEPTANCE

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ABSTRACT

The main objective of this study is to analyze the effects of financing on firm performance of manufacturing firms in Sagaing City. The population comprised 64 manufacturing firms in Sagaing City. Stratified random sampling method is used to collect the data. Data was analyzed by using descriptive statistics such as frequencies, percentages, means and standard deviations. Multiple regression analysis was carried out to test the effects of financing on firm performance of manufacturing firms in Sagaing City. This study used two sources of data: primary and secondary data. For primary data of manufacturing businesses information, owners or managers of manufacturing firms in Sagaing were answered with structured questionnaires by using five-point likert scale. Secondary data were collected from text books, previous research papers, journals and reference books. Organic sources of financing have positive effect on firm performance of manufacturing firms in Sagaing City. External sources of financing have negative effect on firm performance of manufacturing firms in Sagaing City. Most of the respondents do not use long-term loan because the system of banking processes are complicated for them. Moreover, collateral requirement is considered of prime important while access to bank loan is seen as very problematic. The study recommends that Small and Medium Enterprises (SMEs) should use long-term loan financing, trade credit financing and short-term loan financing for them to realize higher level of firm performance. This study may have been constrained by small target population and one respondent per firm. Future researchers should study more respondents and more variables.

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LIST OF ABBREVIATIONS

DISI	Directorate of Industrial Supervision and Inspection
GDP	Gross Domestic Product
RBV	Resourced-based View
SME	Small and Medium Enterprise

CHAPTER 1

INTRODUCTION

For national economies, the small and medium-sized enterprise (SME) sector is important because it contributes significantly to jobs and GDP, and because its growth is related to the formalization of the economy. The majority of jobs are created by SMEs in many countries. In global surveys, including the World Bank Business Surveys and Investment Climate Assessments, small and medium-sized enterprises say that financing costs are their main barrier to growth and rate access to finance as another key barrier. Small and medium-sized enterprises (SMEs) are more financially restricted than large firms and moreover, lack access to external finance, which is a key obstacle to firm growth. (Schiffer, & Weder, 2001).

Every nation interest promoting and sustaining of economic growth. Therefore, fostering the growth of small and medium-sized enterprises (SMEs) should be seen by governments worldwide as an important tool for achieving socio-economic development. Therefore, fostering the growth of small and medium-sized enterprises (SMEs) should be seen by governments worldwide as an important tool for achieving socio-economic development.

In the recent years, the roles of manufacturing firms in the economy are rising. In the center of the support systems, the offering of funds typically at concessionary rates, to the manufacturing company sector is included. In the center of the support systems, the offering of funds typically at concessionary rates, to the manufacturing company sector is included. (Matarirano 2007). But it is not well known if the use of such debt improves profitability, thus improving performance.

Small and medium-sized companies in China have played an active role in economic development. In China, 99.6 percent of companies are SMEs. These enterprises account for 59% of GDP, 60% of total sales, 48.2% of taxes, and about 75% of employment in urban areas (National Bureau of Statistics, 2005). The challenge of SMEs accessing external funding from traditional financial institutions is generally known, in comparison to their contribution to the economy. Lin (2007)

documented that in 2006, no more than 0.5 million out of more than 40 million SMEs were able to receive bank loans. About 98 percent of SMEs, in other words, do not have recourse to bank lending. The World Bank Investment Climate Survey for China also shows that China's small and medium-sized enterprises face higher credit constraints and access to bank loans is more restricted than in other Asian countries.

In Myanmar, SMEs are considered to be an effective tool for economic growth, economic development, poverty alleviation, income generation and employment generation. The role of SMEs for economic growth and development of any country is even more evident when the economies of developing countries are concerned. In terms of the economic well-being of developed and developing countries, SMEs play a crucial role. In Myanmar, Government recognizes that SMEs entrepreneurship will define the country's future for national economic development. Approximately 99.4% of all companies in Myanmar account for 50-95% of jobs and contribute 30-53% of the Gross Domestic Product. SMEs' contributions to GDP and national jobs are substantial.

SME growth is, however, often constrained by various factors, such as limited access to information and technological know-how, lack of economies of scale, deficiencies in corporate governance and limitations in access to funds. Government interventions have been required to create enabling environments for SME growth. Such interventions include transparent licensing and permit procedures, financial provisions, information gathering and sharing, infrastructure and efficient customs procedures. SMEs in Myanmar are facing poor infrastructure, inadequate access to finance, limited market access, outdated technology, low skill and productivity levels and a lack of business development services (OECD, 2013). Such factors are hindering SMEs in Myanmar from reaching their full potential and bringing the widespread benefits of socioeconomic development to its people.

1.1 Rationale of the Study

SMEs need financing at all stages of their growth, from start-up to stage-development. Different funding programs and institutions can be facilitated by governments in both developed and developing countries to give SMEs easy access to financing at each point of their growth.

Finance is the significant element for determining the growth and survival of SMEs. The availability of financial capital is a key determinant for the development of start-ups and the growth of SMEs (eg: purchase of raw materials, payment of current liabilities). Access to finance makes it easy for small and medium-sized companies to obtain financing to make investments, to develop their businesses and to acquire the latest technology, thus ensuring their competitiveness and that of the nation as a whole.

In terms of finance, customers, internal business processes and learning and development, businesses have historically assessed their efficiency (Kaplan, 1996). The company's growth output refers, often over a period of time, to a positive shift in scale. Development typically takes place as a stage of maturation or as a process towards fullness or fulfillment. The growth demonstrates a firm's past ability to increase its size (Whetten, 1987). Effects of financing on the firm performance are very interested topic for many researchers. Therefore, this research is conducted to identify the use of financial resources and performance of manufacturing firms in Sagaing City. Then, it would add knowledge to the academic literature about financial resources and performance of SMEs under current study.

1.2 Problem Statement

The problem of this research is to analyze the effects of financial resources on firm performance of manufacturing firms. Firms use financing for various purpose. Financing are often mentioned as one of the most important obstacles for future growth of SMEs. Entry to funding is among the most immediate problems faced by SMEs in Myanmar. Businesses in Myanmar rely on self-financing for almost 80 percent of starting money, while financial support from banks is only 8 percent, according to the Myanmar Micro, Small and Medium Enterprise Survey 2017 distributed by the Ministry of Planning and Finance.

Moreover, Myanmar's banks sell commercial loans at interest rates of up to 13 percent per year. In addition, as collateral for the loans, fixed assets are required. This makes it hard or costly for SMEs to obtain access to loans. SMEs are looking elsewhere for financial assistance in the meantime. In 2016, an agreement was signed with Myanmar by the Japan International Cooperation Agency (JICA) under which money would be lent to local banks that would then provide loans to SMEs in the so-called two-step loan process.

Firm success depends directly on access to funding. The relationship between local financial growth and firm performance in Morocco was examined by Fafchamps and Schündeln (2013); the effect of financial constraints on firm performance was analyzed by Boermans and Willebrands (2011); and the ties between access to finance and the performance of small-scale enterprises in Kenya were examined by Atieno (2009). This study therefore sought to measure the impact of business financing sources on the firm output of Sagaing City's manufacturing companies.

1.3 Objectives of the Study

The main objective of this study is to analyze the effect of financial resources on the firm performance of manufacturing firms in Sagaing City.

Specific Objectives

The specific objectives of this study are as follows:

1. To analyze the effect of owner's capital financing on the firm performance of manufacturing firms in Sagaing City.
2. To analyze the effect of retained earnings financing on the firm performance of Sagaing City's manufacturing firms.
3. To analyze the effect of long-term loan financing on the firm performance of manufacturing firms in Sagaing City.
4. To analyze the effect of trade credit financing on the firm performance of Sagaing City's manufacturing firms.
5. To analyze the effect of short-term loan financing on the firm performance of manufacturing firms in Sagaing City.

Research Questions

The research questions of this study are as follows:

1. What is the effect of owner's capital financing on the firm performance of manufacturing firms in Sagaing City?
2. What is the effect of retained earnings financing on the firm performance of Sagaing City's manufacturing firms?
3. What is the effect of long-term loan financing on the firm performance of manufacturing firms in Sagaing City?
4. What is the effect of trade credit financing on the firm performance of Sagaing City's manufacturing firms?
5. What is the effect of short-term loan financing on the firm performance of manufacturing firms in Sagaing City?

1.4 Methods of Study

This research uses the Survey Process. The method of stratified random sampling is used to gather the data. Using descriptive statistics such as frequencies, ratios, means and standard deviations, the data was analyzed. Multiple regression analysis was carried out to test the effects of financing on firm performance of manufacturing firms in Sagaing City. Two sources of data: primary and secondary data are used in this study. For primary data of manufacturing businesses information, owners or managers of manufacturing firms in Sagaing were answered with structured questionnaires by using five-point likert scale. Secondary data from text books, prior academic papers, journals, and reference books have been gathered.

1.5 Scope and Limitations of the Study

This study analyses the effects of financial resources on the firm performance of manufacturing firms in Sagaing City. This study focuses on owners and managers of the manufacturing firms in Sagaing City. There are four types of SMEs under registered by Directorate of Industrial Supervision and Inspection (DISI). They are manufacturing, trade, service and other sectors. In the current study, only manufacturing firms are focused. There are (176) manufacturing firms under registered by DISI. The study population consists of 64 Sagaing City manufacturing firms. Data were obtained from owners or managers of manufacturing firms in Sagaing. In addition, the current study focuses on only five factors affecting on firm performance of manufacturing firms, and there be another factors the current study cannot explore.

1.5.1 Working Definition of SMEs

A manufacturing business is any business that uses components, parts or raw materials to make finished goods. A small business, whether it operates primarily a manufacturing enterprise, in which the number of workers does not exceed 50 as a permanent investment or a capital investment does not exceed 500 million kyats. A medium-sized company, if it primarily operates a manufacturing enterprise, in which the number of workers does not exceed 300, cannot exceed 500 million kyats to 1,000 million kyats as a permanent or capital investment.

1.6 Organization of the Study

There are five chapters in this thesis. Chapter one deals with the introduction of the research, the rationale of the study, the study problem statement, the study goals, the study methods, the nature and weaknesses of the study, and the organization of the study. The theoretical history is presented in Chapter two. It describes the theories of the sources of financing, firm performance theory and resource based view theory. And, Chapter three presents the Background of SMEs in Myanmar, Definitions of SMEs, Myanmar Government Priorities the Development of SMEs and Financial Support for SMEs. And then, Chapter four includes an analysis of the effects of financial resources on the firm performance of manufacturing firms in Sagaing City. Chapter five describes the findings and discussions, recommendations, conclusions of the study and needs for further study.

CHAPTER 2

LITERATURE REVIEW

This chapter offers an insight into the study of variables in the applicable literature. It provides literature on the key aspects of research, including the concept of production, the financing available to SMEs and the output of the business. This fulfilled the aim of the study of the influence on the efficiency of the financing of manufacturing firms.

2.1 Manufacturing

Manufacturing is the processing of raw material into finished goods using tools and processes. Manufacturing is the method of adding value that allows companies to sell finished goods at a premium over the value of the raw materials used.

2.2 Available Financing for SMEs

Finance sources reflect the way for the industrial concern to mobilize different terms of finance. Finance sources show how businesses are mobilizing finance for their needs. In order to fulfill long-term and short-term needs such as the acquisition of fixed assets, the construction of office buildings, the purchase of raw materials and day-to-day expenditures, businesses belong to existing or new companies that need a sum of funding.

If large-scale funding is mobilized and repayable over a period of more than one year, it can be viewed as a long-term source. The capital expenditure of businesses, such as the acquisition of fixed assets, land and development, etc., must be covered by long-term sources of financing. In addition to the long-term source of financing, businesses can produce finance with the aid of short-term sources, such as commercial bank loans and advances, money lenders, etc. The operational expenditure of the organization needs to be met by short-term sources of funding. All external sources of funding accessible to companies include financial support structures. The principal suppliers of financial services for companies are commercial banks. Finance sources can be categorized according to different categories based on

culture. There are two types of sources in the ongoing analysis. Organic sources and external sources are these. The wealth of the owner and retained earnings are organic sources. Long-term credit, trade credit, and short-term credit are external outlets.

2.2.1 Owner's Capital

The capital of the owner, also called the equity of the owner, is the equity account showing the interest of the owners in the business. This account, in other words, demonstrates how much of the company's assets are owned by the owners rather than creditors. The easiest and most cost-effective way to provide your own financing for a new business is to use your personal savings. In the initial stages of SME growth, internal equity financing, as best illustrated by owner-manager personal savings, is a vital source of funding for SMEs in these early stages due to moral hazard and issues with data opacity being usually more serious. Subsequently, in the later stages, SMEs start to reduce their reliance on these sources in order to expand and grow and begin to look for alternative channels for raising capital.

Equity financing, as a mode of financing for new and young SMEs, is favored over debt since they face a traditional cash shortage and are typically unable to access collateral loans during the start-up process. Two situations were described by Ou and Haynes (2006) when small and medium-sized companies seek funding from equity capital sources in order to meet expansion needs. The first case is when, along with a lack of alternative sources of funding, SMEs face financial distress. When cash outflows surpass the cash inflows produced from normal sources, the second case is. The following hypothesis will be checked in chapter 4 with respect to the above literature review.

H₁: Owner's capital financing has positive effect on firm performance of manufacturing firms in Sagaing City.

2.2.2 Retained Earnings

Retained earnings are other sources of long-term financing. In fact, it is not a method of raising finance, but it is called the accumulation of profits by companies for their activities of expansion and diversification. There are undistributed parts of the business that are known to be the source of owned money. The profits are converted into reserves and used for financing requirements of the firm. The method

of reinvesting a part of the company's earnings is called profit pouching back or internal financing (Jenkinson).

Support for retained earnings is a means of finance that would only be open to a corporation that was already in operation. The owners can use income from a corporation for their own personal use or can use them to put them back in the company. The owners of a company have to determine what is the best choice for their specific company. It might be appropriate to bring a lot of the income back into the company at the early stage of business growth. This funding will be used to purchase new equipment and machinery, as well as more stock or raw materials, and potentially make the company more effective and successful in the future (Ikoja-Odongo, 2008). The following hypothesis will be checked in chapter 4 with respect to the above literature review.

H₂: Retained earnings financing has positive effect on firm performance of manufacturing firms in Sagaing City.

2.2.3 Long-term Loan

Long-term debt is an important form of long-term financing. This is financing with an initial maturity of more than one year. It can be obtained with a term loan which is negotiated from a financial institution or through a sale of bonds which are marketable debt sold to a number of institutional and individual lenders. The key suppliers of financial services to corporations are commercial banks. Long term loans are loans that you repay, usually in monthly installments, for a period of one year or longer. Low interest rates and low monthly payments are the advantages of a long-term loan, since payments are spread out for a long period. Kumar and Woo (2010) examined the relationship between debt and economic growth. Jaramillo and Schiantarelli (2002) investigated the long-term debt effect on firms' performance in Ecuador. The following hypothesis will be checked in chapter 4 with respect to the above literature review.

H₃: Long-term loan financing has positive effect on firm performance of manufacturing firms in Sagaing City.

2.2.4 Trade Credit

Trade credit is one of the most significant sources of external financing for SMEs. For example, Berger and Udell (2006) estimated that commercial credit

constituted one-third of the total debt of SMEs in the US in 1998. According to García-Teruel& Martínez-Solano (2010), there is a delay in the payment of products or services as a result of an arrangement between the producer and the company after they have been shipped or given. Therefore, this is a means of funding for the company that appears on the balance sheet under current liabilities, while it is an investment in receivable accounts for the supplier. Trade credit is provided by one company to another company which purchases products. This credit range is from 15 days to 3 months and is given on the basis of the buyer's goodwill. Trade credit is granted to the buyer of goods by the seller. It is applied to the manufacturer by the seller as a whole. Such credit facility may be called a trade credit (Manishi, 2006). Regarding the above literature review, the following hypothesis will be tested in chapter 4.

H₄: Trade credit financing has positive effect on firm performance of manufacturing firms in Sagaing City.

2.2.5 Short-term Loan

Most businesses need some kind of funding to cover short-term expenses. When assessing working capital funding, business finance is critical because it gives you the resources and knowledge to determine how much money you need and the best way to get it. If your business operates with a monthly cycle where it accrues most of its expenses early in the month and earns most of its income later in the month. Banks and micro-finance are main institutional sources of operating capital. A bank considers a firm's sales and production plans in determining its working capital requirements (Brigham and Houston, 1998). Kehinde and Mosaku (2006) notes that using short-term funds to finance long-term investments can negatively impact on the working capital of firm performance. Regarding the above literature review the following hypothesis will be tested in chapter 4.

H₅: Short-term loan financing has positive effect on firm performance of manufacturing firms in Sagaing City

2.3 Firm Performance

Firm performance can be defined and measured in terms of profitability, growth, market value, total return on shareholder, economic value added, customer

satisfaction, based on the stakeholder's expectations (Carroll, 2004). For investors, decision-makers, creditors, and other stakeholders, assessing company success using financial analysis has been a standard instrument (Delen, Kuzey and Uyar, 2013) since many experts agree that company performance is just the same as financial performance. However, financial performance is not only critical for stakeholders (Harrison and Wicks, 2013). And they're hungry for more. "This is how Freeman (1984) defined company performance as "the total value provided by the company through its operations, which is the amount of the utility produced by each legitimate stakeholder of a company.

Business performance is a dynamic concept that may contain multiple shadows of context as long as it applies to the company's operational performance, functioning and results of its operations. Performance typically means operational performance, including the manufacture of goods and services, the operation of the company's various divisions, the performance of its workers and the overall results of their jobs. Around the same time, company success can be seen as part of the company's market growth in a wider sense.

On company results, a detailed construct (model) can be unidimensional or multidimensional. It is to be noted that the identified determinants for firm performance are profitability performance, growth performance, market value performance, customers' satisfaction, employee's satisfaction, environmental performance, environmental audit performance, corporate governance performance and social performance. As pointed out earlier, these determinants were identified, based on the reviews published earlier.

The growth shows the past capacity of an organization to increase its size. (Whetten, 1987). Growth in scale, even at the same level of profitability, would improve its absolute profit and cash output. Larger company sizes can also carry economies of scale and market strength, contributing to increased potential business profitability. Rajesh Ramkumar et al., (2015) pointed out that the development of financial markets has significant impact on economic growth.

According to Westover (2008), output is taken to be the role of the ability of an organization to achieve its goals and objectives by efficiently and effectively utilizing the resources available. John (2004) adds that success includes quality, which refers to the ability of the business to serve and deliver what the market needs

at a given time and effectiveness, which means achieving the targets with the highest possible benefits at the lowest possible cost. Managers use actions intended to produce sustainable long-term progress to measure efficiency (Alexander and Christian (2008).

Ortiz-Molina (2007) in his study of medium sized manufacturing firms found that ownership and the size of the organization had an impact on the performance of the organization. He discovered that, as an organization grew in size in terms of stock level, revenue, asset level and more trained staff, economies of scale had a positive effect on results. John (2006) observed that availability and level of resources can be used to analyze the performance of an organization. He says that resources which may include assets, finances, employees' skills and organizational processes are a key indicator of the firm's performance overtime.

Stoner (1996) reveals that the most commonly used indicator of financial success has been profitability. Profitability is the revenue and expense surplus that can be represented by gross profit margin, net profit, and equity return ratios. John and Tian (2000) considers sales volume as a good measure of performance of small scale enterprises. His findings were verified by (Kasekende, 2001) who discovered that the company's revenue turnover is high as revenues rise, indicating that the company is increasing its production level and an indication of better results. Boles, et al (2001), observed that a firm can register its better performance if the level of sales is increasing over time to meet the predicted and targeted sales.

A firm is said to perform better if its sales volume rises over time, according to Bagozzi (1999). He further noted that in a situation where the management of the company is effective, if the sales volume rises, it also means that income increases and this causes the company to become liquid, thus reducing the ability of the company to borrow in order to satisfy its debt obligations.

2.4 Resource-based View Theory

The Resource-Based View (RBV) is a management method used to assess the strategic tools that an organization should use to achieve a competitive advantage that is sustainable. According to Barney's (1991), "Firm Resources and Sustained Competitive Advantage" is widely cited as a pivotal work in the emergence of the resource-based view. In an attempt to recognize those properties, skills and

competencies with the potential to offer superior competitive benefits, the RBV focuses managerial attention on the internal resources of the organization.

Tools that enable an organization to formulate and enforce policies that enhance its effectiveness and productivity are seen as valuable and can be a source of competitive parity (Barney, 1989). Resources that are valuable and rare, or valuable and are possessed only by a small number of firms can be a source of competitive advantage. Resources that are valuable, rare and inimitable can be a source of sustained competitive advantage (Barney & Clark, 2007). Moreover, to achieve a sustainable competitive advantage, a firm needs to have the ability to exploit the full competitive potential of its valuable, rare and inimitable resources (Barney & Clark, 2007). Such skill also lies in the systems, processes and activities of the company.

The firm's resource-based perspective (also known as the principle of resource-advantage) became the dominant concept of strategic planning during the 1990s. RBV can be seen as a reaction to the positioning school and its rather prescriptive strategy that centered managerial attention on external factors, especially the structure of the industry. The discipline was dominated by the so-called positioning school in the 1980s. In comparison, the resource-based view argued that the production of superior skills and capital resulted in sustainable competitive advantage.

Although the literature presents several different ideas about the resource-advantage principle, the common theme at its heart is that the resources of the business are financial, legal, human, organizational, knowledge and relational; resources are heterogeneous and imperfectly mobile and that the main task of management is to recognize and coordinate resources for sustainable competitive advantage.

Barney describes firms resources as: "all assets, capabilities, organizational processes, company attributes, data, knowledge, etc. controlled by a company that allows the company to devise and implement strategies that enhance its effectiveness and effectiveness." Capabilities are "a special type of resource, specifically an organizationally embedded non-transferable company-specific resource whose purpose is to improve its effectiveness and effectiveness."

Resources that are firm-based can be tangible or intangible. Tangible resources include: physical assets, including real estate, raw material equipment, factory, inventory, labels, patents and trademarks and cash, such as financial resources and human resources. Intangible resources, such as the credibility, tradition, expertise or know-how of a company, cumulative experience, customer relationships, suppliers or other main stakeholders, can be embedded in organizational routines or activities. In resource-based words, they are especially important because they give companies advantages in the use of resources.

2.5 Reviews of Previous Study

Performance is the role of an organization's ability to obtain and utilize capital to achieve competitive advantage in many different ways. It is very important to calculate financial efficiency, since it builds on the results and makes various decisions in economic units. For economic units, financial performance assessment is important because it offers valuable information about economic units before decisions or actions are taken (Lahtinen, 2009). The success of small businesses was described by Sandberg, Vinberg and Pan (2002) as their ability to contribute through start-up, survival and growth to job and wealth creation. Financial performance metrics are used to determine the effectiveness of economic units in achieving specified objectives, targets and vital success factors as indicators (Lahtinen, 2009).

Adequate financing has a significant effect on the survival and success of small business and without which the small business would not succeed (Gill & Biger, 2012). Yallapragada and Bhuiyan (2011) examined the key factors in the success of small businesses and noted that the factors that determine small business success include adequate financial resources. Chong (2012) investigated the factors that influence the success of small and medium-sized enterprises (SME) as perceived by the business owners and managers. Chong found that financial resources are crucial to the survival of SMEs, using a survey questionnaire of SME owners.

According to Byrd et al., (2013), the result indicated that financial resources are vital to the degree of success achieved in creating new business. The lack of financial capital is cited by small business owners as a major impediment to business growth and success. Brinckmann, Salomo, and Gemuenden (2011) agreed and noted that small businesses faced difficulty in the acquisition of financial resources. Small companies use either internal or external funding sources (Daskalakis et al., 2013).

A study by Segarra and Teruel (2009) on manufacturing small Spanish firms revealed that firms that have access to equity financing increased with size and firm's age. External debt financing plays an important role to increase future productivity of firms and more important for future growth (Gomis and Khatiwada, 2016). External sources of finance used when internal sources are not enough to fulfill the needs of the organization and need more finance and borrow from outside the organization (Mwangi et al., 2014). Companies' issuance of shares is the external source of finance and these shares may be issued to the existing shareholders or to the new shareholder and it is the cheapest source of finance (Clive et. al., 2010).

Kinyua (2014) has established the factors that influence the output of SMEs in Kenya's Nakuru Town. A survey study design was used in the research and a stratified random sample was used. He found in his analysis that the performance of small and medium-sized enterprises was affected by financing, management skills, the macro environment, and infrastructure. The study's findings indicate that access to finance has the potential to have a positive effect on SME results. Similar studies by Nabintu (2013) found that the success of small and medium-sized companies, among other factors, affected access to finance, such as technical insight into the payment system and the availability of management expertise. The finding of the study indicates that there is a positive correlation or relationship between financial performance of SMEs and access to finance.

The relationship between debt and economic growth was investigated by Kumar and Woo (2010). Short-term debt is the best financing tool because it is perceived to be cheaper (Jun et al., 2003). Because of regular renewals, short-term debt adapts more quickly and improves bank ties between the company and the lender, so businesses can benefit from the credit situation. The problem of underinvestment is addressed by short term debt loans because management is more frequently controlled due to periodic renewal of credit.

According to Pelham (2000) study there was a direct positive and significant relationship between long term loans and financial performance of the small businesses. Loans are given depending on savings with financial institution and the SMEs previous loan repayment. Depending on the ease of collection, payment and accessibility with seasoned customers, most of these loans are lent out. Financial

institutions tend to satisfy their working capital clients by offering short-term loans and limiting long-term loans.

Frank and Goyal (2005) while discussing financial theories underscored the fact that financial managers have a tendency to utilize retained earnings compared to external funding. Retained earnings (Njeru et al., 2012) constitute to be an important source of financing for established SMEs in developing economies. Abouzeedan (2003) clarifies this trend by asserting that retained earnings are one of the cheapest financing sources that SMEs can access and utilize. In order to pay for regular expenses, company will still have enough money coming in from sales of products and services. When assessing working capital funding, business finance is critical because it gives you the resources and knowledge to determine how much money you need and the best way to get it.

According to Munyony, 2013, trade credit applies to credit provided to small and medium-sized companies by their suppliers from which they have bought goods or services on a credit basis for a certain period of time during which they pay at a later date when the period of credit expires. Agbozo and Yeboah (2012) found that in Ghana 83% of respondents agreed that they used trade credit as a form of financing and 67% agreed that accessibility to trade credit had improved over the years. It was mostly utilized by SMEs as traders preferred to use it as a refinancing tool with a view to patronizing their product chain of distribution.

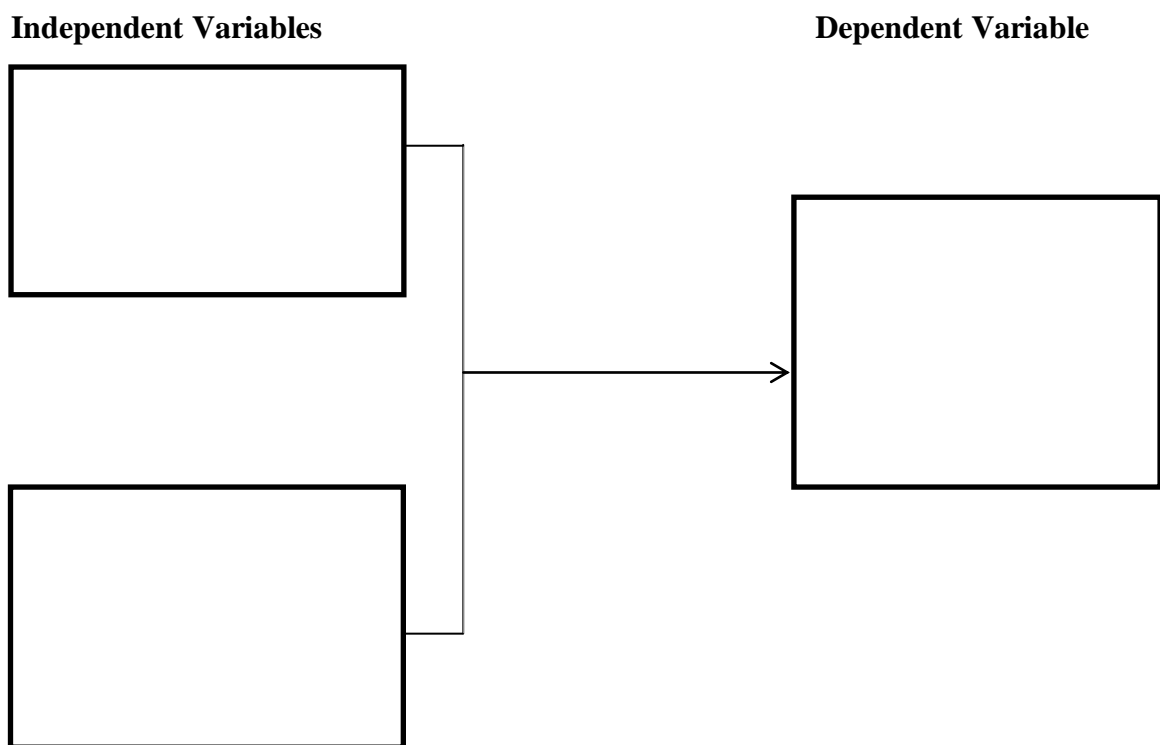
Many studies (Mugume 2001; MFPED; 2000; Gauthier 2001, Kappel, and Steiner 2004) have linked the access to finance and performance. They argue that access to finance, which is a component of the country's operating expenses, profit motive, access to finance and inflation rate, has a major impact on small-scale enterprise efficiency. This is measured in terms of level of output, level of revenue and level of employment depending on how the borrowed money is put to use. Access to finance is important and a factor in the development, growth and sustainability of small enterprises. (Atherton, 2012). Yallapragada and Bhuiyan (2011) discussed the importance of adequate financing and the need for small business owners to understand the process of accessing the financing needed for business development and growth.

2.6 Conceptual Framework of the Study

A notion is an abstract or general concept inferred or derived from concrete instances, according to Kombo and Tromp (2009). A conceptual framework is a set of broad ideas and concepts derived from the applicable fields of inquiry and used to form a subsequent presentation. Mugenda and Mugenda (2003) and Smith (2004) describe a hypothesized model that describes the model under analysis and the relationship between dependent and independent variables as a conceptual context.

Kothari (2004) describes the assumed cause of the changes of the dependent variable as an independent variable, also known as the explanatory variable, whereas a dependent variable refers to the variable that the researcher wants to demonstrate.

The conceptual framework for the study was the resource-based view (RBV) theory. Wernerfelt (1984) developed the resource-based view theory. The theory offers a structure for understanding the value of organizational resources and demonstrates that an organization's success and survival depend on the resources owned and managed by the organization (Wernerfelt, 1984). Resources are the inputs that help the daily operation of the organization (Amit & Schoemaker, 2012). The categories of firm resources include (1) physical resources, (2) financial resources, (3) technological resources, (4) human resources, and (5) organizational resources (Greene, Brush, & Brown, 2015).



Source: Adaptation from Previous Studies

Figure2.1: Conceptual Framework

The dependent variable of this study is firm performance as measured in terms of growth in the sale volume, income level, profits growth and donations. The independent variables of this study are organic sources of financing and external sources financing. In this study, it is assumed that the firms' performance would be impacted by five factors, namely, owners' capital, retained earnings, long-term loan, trade credit and short-term loan financings. Therefore, the study analyzes these factors whether they are really influencing the firms' performance. The conceptual framework of the study can be seen in figure 2.1.

CHAPTER 3

HISTORICAL BACKGROUND

This chapter describes the historical background of SMEs. It describes background of SMEs in Myanmar, definition of SMEs, prioritizes of Myanmar Government on the development of SMEs and financial support for SMEs.

3.1 Background of SMEs in Myanmar

Small and medium-sized enterprises (SMEs) play an important role in the economic growth of the country and are leaders in innovative entrepreneurship that can more than large enterprises respond better to changing business demands. SMEs include any form of industry or service, wholesale and retail, logistics, agriculture, education, health, electricity, transport, oil, infrastructure, tourism, etc. Small and medium-sized enterprises (SMEs) are a fundamental part of the economic structure of developing countries and play a crucial role in fostering growth, innovation and prosperity. Each product or service we use in our everyday lives comes from a small and medium-sized company, which makes them an indispensable part of life. SMEs may thus be regarded as the lifeblood of the economy of a nation.

Traditional enterprises have long existed in Myanmar. They were small cottage industries engaged in the manufacture of handicrafts, textiles, sewing, cutting and polishing of gems, lacquer ware, woodwork, gold, silver and blacksmithing. In the form of financing and the procurement of raw materials, the government has offered some incentives for SMEs. As a result, SMEs had made significant progress in the food, fabric, sewing, cosmetics, chemicals, and consumer goods sectors, such as toys, soap, food snacks, and clothing, by the 1960s.

The Private Enterprise Law was passed in 1977. It recognized the legal status of private entities and allowed them to carry out the economic activities specified. During the socialist era, however, private investments were limited to small-scale industries. The position of small and medium enterprises (SMEs) was subordinate to state-owned companies and cooperatives.

The market-oriented economic structure was introduced by Myanmar in 1988. Accordingly, laws, directives, guidelines, regulations and notices banning or restricting the participation of the private sector in economic activities have been repealed, and a range of laws and regulations have been changed to reflect changes in time and circumstances. In November 1988, the Foreign Investment Law of the Union of Myanmar (FIL) and the procedures prescribed in December 1988 to promote foreign direct investment were enacted. Myanmar has opened the doors to foreign investment to actively engage in the development of natural resources, thereby improving mutually beneficial long-term cooperation.

The State Peace and Development Council (SPDC) allowed private sector companies to "engage in external trade and retain export earnings in 1989 and began legitimizing and formalizing border trade with neighboring countries, an activity previously considered illegal" (Kudo and Mieno, 2007). A limited private sector expansion was permitted and some foreign investment was permitted. The objectives set were to establish agriculture as a basis for supporting the growth of other sectors, to evolve properly into a market-oriented economic system, to promote investment and technical involvement from both internal and external sources, and to retain state control and initiative. Economic reform measures for various sectors adopting at a market-oriented system for allocation of resources and distribution of goods and services, encouraging private investments and entrepreneurial activities domestically, and opening the country to foreign direct investment; and promoting exports responsibility for implementing the industrial policy was put in the hands of the Myanmar Industrial Development Committee (MIDC).

The Private Industries Enterprises Law was implemented in 1990, the 1991 Cottage Industrial Law Promotion, and the 1994 Myanmar Citizen's Investment Law to improve private businesses. Formed in 1989, the Union of Myanmar Chamber of Commerce and Industry was upgraded in 1999 to the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) (Aung Kyaw, 2008). By 2004,

Myanmar's SMEs constituted 92.6 percent of the total industrial sector, while large factories accounted for just 7.4 percent of the total industrial sector (Mandal, 2007). The Private Industrial Enterprises Law of 1990 formalized the classification of industries by the government of Myanmar and is focused on the power used, number of workers, resources and output.

By 2007, UMFCCI membership had reached 16,363, with 10,854 local companies, 1,656 international companies, 770 foreign companies, 185 cooperatives, and 2,898 individual members. Today, SMEs dominate much of the economic activity in Myanmar, accounting for 90% of the industrial sector and 99% of the manufacturing sector (Tin Maung, 2007).

3.2 Definitions of SMEs

The absence of a common definition for small and medium-sized enterprises (SMEs) is also considered an obstacle to business studies and market research. In terms of jobs, turnover and properties, concepts in use today describe thresholds. Although there is no widely accepted description of small and medium-sized companies, the number of workers, the value of assets, the value of revenue and the size of capital and turnover are some of the frequently used metrics. Because of the comparatively easy collection of details, the most common definitional basis used is employees and there is variance in defining the upper and lower size limit of a SME here again.

In most economies, particularly in developing countries, small and medium enterprises (SMEs) play a major role. According to the Organization for Economic Co-operation and Development (OECD), internationally SMEs account for 50% of GDP, 30% of exports, 10% of FDIs and 60-70% of the private sector employment. However, what exactly an SME depends on who's doing the defining. The size of the company can be classified based on the number of employees, annual revenue, assets or any combination of these, depending on the region. SMEs are enterprises which maintain below a certain threshold profits, assets or a number of employees. Every country or economic organization has its own definition of what is considered a Small and Medium Enterprises (SMEs). There is no distinct way of describing SMEs in the United States, but a small enterprise in the European Union is a company with less than 50 workers, whereas a medium-sized enterprise has fewer than 250 employees.

There are micro-companies, in addition to small and medium-sized businesses, that employ up to 10 workers.

Classification	No. of employees	Capital (million Kyats)	Turnover (million Kyats)
Small Manufacturing	Up to 50	Up to 500	

Table3.1 Legal definition of SMEs according to the 2015 SME Development Law

Labour-intensive manufacturing	Up to 300	Up to 500	
Wholesale	Up to 30	Up to 100	Up to 100
Retail	Up to 30	Up to 50	Up to 50
Service	Up to 30	Up to 100	Up to 100
Other	Up to 30	Up to 50	Up to 50
Medium			
Manufacturing	51-300	500-1,000	
Labour-intensive manufacturing	301-600	500-1,000	
Wholesale	31-60		100-300
Retail	31-60		50-100
Service	31-100		100-200
Other	31-60		50-100

Source: 2015 SME Development Law

Small and medium enterprises (SMEs) are classified according to the Law on the Creation of Small and Medium Enterprises (Pyidaungsu Hluttaw Law No. 23/2015) on the basis of their number of workers, form of operation, capital invested or level of turnover. The classification is illustrated in Table 3.1. Compared to the 1990 version of the law, the maximum number of employees has been increased for labor-intensive activities, as have the limit values for capital and turnover.

3.3 Prioritizes of Myanmar Government on the Development of SMEs

Small and medium enterprises (SMEs) are the backbone of business and manufacturing in most countries. Myanmar is no different and the privately held SME segment accounts for over 99 percent of all its revenue. An enterprise defined as a small or medium enterprise according to the rules and regulations set in a country. All governments understand the potential of SMEs and their contribution to economic growth, and new rules and regulations are implemented to ease their processes of setting up and promote their operations. SMEs need government support in the form of better infrastructure and communication facilities even as funds and technology pose big challenge.

Small and Medium Enterprises (SMEs), contribute significantly to the GDP growth and the economic development of a country be it developing or developed. SMEs give, significant employment path, platform for creativity and innovation that

stimulates national income, as well as entrepreneurial opportunities and social stability.

In every country in the world, the large majority of businesses are SMEs. They are widely recognized as significant drivers of economic output and employment creation, thereby generating income and contributing to poverty alleviation. SMEs are also seen as important agents of innovation, introducing new products and novel production processes that help to increase productivity and economic growth. Governments around the world agree that supporting the growth of small and medium-sized enterprises (SME) is an important tool for fostering socioeconomic development.

A study by the World Bank indicates that SMEs contribute to over 60% of GDP and more than 70% of employment in low-income countries (Ayyagari et al. 2003). The meaning of what constitutes a SME has recently been modified in Myanmar by the enactment of the SME Law 2015. Under the revised Industry Law of 1990, SMEs were previously specified on the basis of four criteria: power used (measured in horsepower), number of workers, capital expenditure and annual output value.

Other entities where companies can register the Directorate of Investment and Company Administration (DICA), the Myanmar Investment Commission (MIC), the Directorate of Industrial Supervision and Inspection (DISI), the Ministry of Cooperatives' Small-Scale Industries Department (SSID) and the various City Planning Committees, such as the Yangon City Development Committee (YCDC).

The Government of Myanmar is making efforts to reform the political, economic and social climate and encourage sustainable economic growth in order to be in line with global changes. This includes supporting small and medium-sized enterprises (SMEs) that play a key role in both developing and developed countries' economic growth.

Myanmar has a vision of developing small and medium-sized enterprises, focused on a strategy of establishing regionally creative and competitive small and medium-sized enterprises across all industries, stimulating income generation and contributing to socio-economic development. Different studies estimate that SMEs account for 50-95 percent of employment in Myanmar and contribute 30-53 percent

of the GDP of the country. According to the Development Bill for Small and Medium-Sized Enterprises (SMEs) (SME Bill), which was launched in January 2014, "small enterprises" are described as those with a capital of K50 to K500 million or 30-300 employees. 'Medium-sized' firms are described as those with a capital of between K50 million and K 1 billion, or 60-600 employees. As a result, 99.4% of Myanmar's enterprises are roughly listed as SMEs, and there is now a total of 50,694 SMEs in the regions and states on the territory of the Union.

In Myanmar, SMEs are important in the development of the national economy. They generate a lot of employment opportunities for the population and contribute to the generation of jobs and profits, the utilization of capital, and investment promotion. For this cause, the Government of Myanmar has paid particular attention to the creation of small and medium-sized enterprises (SMEs), to supporting existing SMEs to become larger businesses, and to developing the best business climate for SMEs. At one committee meeting, the Joint Chair of the SME Development Central Committee, State Counsellor Daw Aung San Suu Kyi, claimed that SMEs cannot be ignored because they make up 99% of Myanmar's economic strength.

With regard to SMEs, the government has prioritized human resource development, support for technical development and innovation, capital funding, better infrastructure, gaining a foothold in the marketplace, reasonable taxes and regulations, and the creation of suitable businesses. The new policy to encourage the growth of small and medium-sized enterprises includes tax relief and tax exemptions, as Myanmar's small and medium-sized enterprises are suffering from arduous tax and monetary policies. They also suffer from a lack of access to capital and intellectual property rights, as well as high interest rates and a lack of strong ties with the banks of Myanmar. The State Counselor, however, met with the President of 22 Myanmar banks in Nay Pyi Taw on 1 August 2017 and urged them to cooperate with the government to support Myanmar's economic development. SMEs and businessmen hope SMEs and the business sector will benefit from this conference.

3.4 Financial Support for SMEs

Because of constraints on the government spending, the Myanmar government offers only non-financial assistance to business enterprises. Myanmar Economic Bank (MEB), Myanmar Investment & Commercial Bank (MICB) and Myanmar Industrial

Development Bank (MIDB) have provided loans to SMEs since 2004. Loans to farmers across the country have also been issued by the state-owned Myanmar Agriculture Development Bank. At the same time, in order to contribute to national economic growth, banks are seeking to reduce the interest rate on loans. They also recommended reducing interest rates from 17 percent to 15 percent. In addition, banks and the Ministry of Agriculture work together to provide financial support for rural growth and rural livelihoods. Small loans have been issued by the Myanmar Agriculture Development Bank to farmers, the fishery sector and rubber plantations.

In addition, a K 15 billion loan will be issued by the Japan International Cooperation Agency (JICA) via the government to grow SMEs at a low interest rate in 2017. The loan is issued through the Myanmar Economic Bank (MEB) and SMEs and entrepreneurs applying for the loan are required to send their current business situation and their future business program to the Department of SME Growth. Nevertheless, despite the growing provision of loans, the lack of financial access and high tax rates are still restricting the growth of Myanmar's small and medium-sized enterprises.

Interestingly, the World Bank Enterprise Survey showed that only less than a third of Myanmar's SMEs identify access to finance as a major business constraint. However, looking at a number of indices of financial access indicates that this is due more to the lack of knowledge and familiarity of SMEs with modern financial markets than to a well-functioning financial sector.

CHAPTER 4

ANALYSIS OF THE EFFECTS OF FINANCING ON FIRM PERFORANCE OF MANUFACTURING FIRMS IN SAGAING CITY

This section presents the descriptive statistics and multiple regressions of the study variables. The aim of this study is to evaluate the effects of financing on the firm performance of manufacturing firms in Sagaing City. This chapter includes demographic factors of respondents, use of financing resources and firm's performance.

4.1 Research Methodology

Research is an academic activity and as such the term should be used in a technical sense. According to Clifford Woody, research comprises defining and redefining the problems, formulating hypothesis or suggested solutions; collecting, organizing and evaluating data; making deductions and reaching conclusions; and at least carefully testing the conclusions to determine whether they fit the formulating hypothesis.

4.1.1 Population of the Study

According to Kombo and Tromp (2006) population is a group of individuals, objects or items from which samples will be taken for measurement or it is an entire group of persons, or elements that have at least one thing in common. The study targeted all the 176 manufacturing firms under registered by Directorate of Industrial Supervision and Inspection (DISI) in Sagaing City.

4.1.2 Sampling Design

A simple definition of a sampling frame is a set of source materials from which the sample is selected (Mugenda, 2003). The definition also encompasses the purpose of sampling frames, which is to provide means for choosing the particular members of the target population that are to be interviewed in the survey (Bailey, 2008). Probability sampling method is used in this study. Probability sampling is a sampling techniques in which sample from a larger population are chosen by using a method based on the theory of probability.

Table 4.1 shows the types of firm. This was made up of a list of 228 small and medium enterprises (SMEs) in Sagaing City that are currently active. The list was obtained from Directorate of Industrial Supervision and Inspection (DISI) in Sagaing City. The SMEs are classified as under four main sectors. They are manufacturing, trade, service and others. The distribution of the 228 SMEs was manufacturing (176),

trade (33), service (14) and other (5). This study was only focus on manufacturing firms in Sagaing City.

After stratifying the target population using stratified sampling, simple random sampling was used to pick the manufacturing firms for the study from the eight sectors. Random sampling was used to ensure that all members of the target population have equal chances of participating in the study.

Table 4.1 Types of Manufacturing Firms

	Population	Sample size	Percent
Food and beverages	37	13	20.3
Clothing and wearing apparel	7	3	4.7
Shelter	13	5	7.8
Personal goods	7	3	4.7
Industrial raw material	1	0	-
Mineral and metal products	8	3	4.7
Machinery & equipment	1	0	-
Miscellaneous	102	37	57.8
Total	176	64	100.0

ata of DISI

The sample size for this study was calculated based on Yamane's formula with an error of 5% and a confident coefficient of 95% (Yamane, 1967). But an error of 10% and a confident coefficient of 90% are used in this study.

$$n = \frac{N}{1 + Ne^2}$$

Where, n= the sample size

N= the size of population

e= level of precision or sampling of error (10%)

$$n = \frac{176}{1 + 176(0.1)^2}$$

$$n = 64$$

4.1.3 Measurement of Variables

The two variables in this respect are financial resources and performance of small and medium enterprises. The former is the independent variable while the latter is the dependent variable. The independent variable measured such as owner's capital, retained earnings, long-term loan, trade credit and short-term loan. The dependent variable, performance measured variables such as changes in level of sales, level of income, profitability and donations.

4.1.4 Reliability of the Study

The measurement scales used in the questionnaire were deemed to have validity because they reflected the key issues in sources of financing and firm performance. Construct validity was assessed from conceptual framework and regression of variables. According to Mugenda and Mugenda (2003), validity is the accuracy and meaningfulness of inferences, which are based on the research results. Validity exists if the data measure what they are supposed to measure. Content validity of the research instrument was evaluated through the actual administration of the pilot group. The study used both face and content validity to ascertain the validity of the questionnaires. Face validity is actually validity at face value. Industry experts and the research supervisor also went through the questionnaire to judge how well the measuring instrument met the standards.

Table 4.2 Reliability of the Current Study

Variables	No. of items	Cronbach's Alpha	Remark
Owner's capital	6	0.779	Good reliability
Retained earnings	6	0.867	Very good reliability
Long-term loan	7	0.923	Excellent reliability
Trade credit	6	0.855	Very good reliability
Short-term loan	6	0.911	Excellent reliability
Firm's Performance	7	0.868	Very good reliability

Sources: Appendix (B)

The reliability of a measuring instrument is defined as the ability of the instrument to measure consistently the phenomenon and it is designed to assess. Reliability, therefore, refers to test consistency. The importance of reliability lies in

the fact that it is a prerequisite for the validity of a test. Simply, for the validity of a measuring instrument to be sustained, it must be demonstrably reliable. Any measuring instrument that does not reflect some attribute consistently has little chance of being considered a valid measure of that attribute.

Cronbach's coefficient, Alpha (α) method of internal consistency/homogeneity was used; which measures the consistency within the questions showing how well they measured characteristics and behavior within the test (Kyokutamba, 2011; Sabana, 2014). Reliability is the degree to which an assessment and measurement tools in the study produces stable and consistent results. Since multiple Likert questions are used in the study, Cronbach's alpha is commonly employed as an index of test reliability, Cronbach's alpha reliability coefficient normally ranges between 0 and 1. The closer Cronbach's alpha coefficient is to 1 the greater the internal consistency of the items in the scale.

The measurement scales computed Cronbach's Alpha (α). The results in the table indicate that owner's capital financing had an (α) of 0.779, 0.867 for retained earnings financing, 0.923 for long-term loan, 0.855 for trade credit financing, 0.911 for short-term loan and 0.868 for firm's performance. The measurement scales were reliable as this is well above 0.6 threshold which (Kyokutamba 2011; Sabana, 2014) is the recommended coefficient for a given research instrument. Hence the internal consistency reliability of the measures was considered sufficiently high enough to have adequately measured the study variables. This allowed for more testing and further analysis of the linear regression model.

4.2 Demographic Factors of the Respondents

The data in this section is presented by using frequency tables that show general characteristics of the sample including the rank, age, gender, the education levels, duration of the business, current problem of the business, and using the source of funds for their businesses. This was done to ensure that all the targeted respondents were utilized for reliability and valid data.

4.2.1 Rank of Respondents

The following table shows the rank distribution of the respondents.

Table 4.3 Rank of Respondents

	Frequency	Percent
Owner	60	94
Manager	4	6
Total	64	100

Source: Appendix (B)

Table (4.3) indicates that 94% of respondents are owners of the firm and 6 % are managers. So, most of the respondents are owners of the firm.

4.2.2 Gender by Respondents

Gender was one of the variables in the study. This is intended to find out whether the sample selected was balanced in terms of gender. Female and male respondents generally differ in the way that they finance their businesses (Verhuel&Thurik, 2001; Carter & Rosa, 1998). The results are presented in the table.

Table 4.4 Respondents' Gender

	Frequency	Percent
Male	55	86
Female	9	14
Total	64	100

Source: Appendix (B)

Table (4.4) shows 86% of males and 14% of females. This indicates that most of the small businesses are owned by men who represent the large percentage. This is because most of the women work at home as house wives. Therefore, thus a little of them start business such as the operating and managing of the firms. Thus, they are also independent.

4.2.3 Age of Respondents

Table (4.5) shows the age of respondents of manufacturing firms in Sagaing City.

Table 4.5 Respondents' Age Group

	Frequency	Percent
Below 30 years	10	16
30-40 years	7	11

41-50 years	21	33
51-60 years	20	31
Above 60 years	6	9
Total	64	100

Source: Appendix (B)

The study tried to find out the age distribution of the respondents. This was intended to find out whether the sample was fairly selected in terms of age category. The findings are presented in the table above. Table (4.5) indicates that majority of the respondents 33% were in age between 41-50 years, 31% were in age 51-60 years, 16% were in age below 30 years, 11% were in age 30-40 years and 9% who were the least were in age above 60 years old. This implies that majority of the owners in the SMEs were expected to have a good background of the operations within the organization.

4.2.4 Types of Business

Table (4.6) shows the types of business in manufacturing firms in Sagaing City.

Table 4.6 Types of Firms in the Study

	Frequency	Percent
Food and beverages	13	20.3
Clothing & wearing apparel	3	4.7
Wood and furniture	5	7.8
Personal goods	3	4.7
Mineral and metal products	3	4.7
Miscellaneous	37	57.8
Total	64	100.0

Source: Appendix (B)

According to table (4.6), 20.3% is the food and beverages, 4.7% is the clothing and wearing apparel, personal goods, and minerals and metal products, 7.8% is the wood and furniture and 57.8% is the miscellaneous.

4.2.5 Level of Education

Table (4.7) shows the level of education of respondents.

Table 4.7 Level of Education of Respondents

	Frequency	Percent
Primary	6	9
Middle	13	20
High	19	30
Graduate	26	41
Total	64	100

Source: Appendix (B)

The levels of education of respondents are primary school level, middle school level, high school level and graduate level. According to the table (4.7), 41% of the respondents are the highest level of education, 30% of the respondents are high school level, 20% of the respondents are middle school level and 9% are primary school level. In as far as the title of study is concerned, the results imply that, the respondents were expected to understand the questionnaires and give valid response since they have better understanding as guided by their level of education which in this case majority is graduate level as the highest level of education.

4.2.6 Duration of the Firms

The following table shows that the duration of the firm in this study.

Table 4.8 Duration of the Firms

	Frequency	Percent
1-5 years	13	20
6-10 years	19	30
11-15 years	9	14
16-20 years	13	20
21-25 years	10	16
Total	64	100

Source: Appendix (B)

According to the table (4.8), 30% of the respondents are in the operation for 6-10 years, 20% of the respondents are in the operation for 1-5 years and 16-20 years, 16% of the respondents are in the operation for 21-25 years while 14% of the respondents are in the operation for 11-15 years. This implies that the majority of the respondents are in the operation for a good period of time. Thus, they are experienced.

4.2.7 Number of Employees

Table (4.9) shows the respondents were asked the number of employees in their SMEs.

Table 4.9 Number of Employees

	Frequency	Percent
1-15	49	76
16-30	10	16
31-45	2	3
46-60	2	3
61-75	1	2
Total	64	100

Source: Appendix (B)

According to table(4.9), 76% of the firms indicate that they have 1 to 15 employees, 16% response that they have between 16 to 30 employees, 3% indicate that they have 31-45 and 46-60 employees while only 2% indicate that they have 61 to 75 employees. This implies that majority of SMEs within Sagaing City have few employees. The criteria for defining the size of a business differ from country to country. Many countries have programs of business rate reduction and financial subsidy for SMEs.

4.2.8 Current Problems

Table 4.10 indicates that current problems of the respondents in the manufacturing firms.

Table 4.10 Current Problem of the Firms

	Frequency	Percent
Finding customers	9	14
Competition	29	45
Access to finance	9	14
Costs of production or labor	8	13
Availability of skilled staff	7	11
Others	2	3
Total	64	100

Source: Appendix (B)

According to table (4.10), it is found that 45% of the firms are facing market competition, 14% of the firms are finding customers and access to finance, 13% of the

firms are cost of production or labor, 11% of the firms are availability of skilled staff and 3% of the firms are facing other problems. This table shows that different firms have different problems of manufacturing firms in Sagaing City.

4.2.9 Use of Owner's Capital

Table (4.11) shows the use of owner's capital in operating in their firms. All of the respondent use own money in their business operations.

Table 4.11 Usage Percentage of Owners' Capital

	Frequency	Percent
1-25%	-	-
26-50%	2	3
51-75%	10	16
76-99%	10	16
100%	42	65
Total	64	100

Source: Appendix (B)

According to table (4.11), 42 firms are used 100%, 10 firms are used 51-75% and 76-90%, and 2 firms are used 26-25%.

4.2.10 Use of Retained Earnings

Table (4.12) shows the use of retained earnings on financing in operating in their business. All of the respondents use retained earnings in their business operations.

Table 4.12 Usage Percentage of Retained Earnings

	Frequency	Percent
1-25%	8	12
26-50%	17	27
51-75%	17	27
76-99%	12	19
100%	10	15
Total	64	100

Source: Appendix (B)

According to table (4.12), 17 firms are used 26-50% and 51-75%, 12 firms are used 76-99%, 10 firms are used 100% and 8 firms are used 1-25%.

4.2.11 Use of Long-term Loan

Table (4.13) indicates that 86% of the respondents do not used long-term loan and 14% use long-term loan.

Table 4.13 Use of Long-term Loan

	Frequency	Percent
Use	9	14
Not use	55	86
Total	64	100

Source: Appendix (B)

The respondents were asked to indicate if they had borrowed long-term loan from banks. For those who answered that they had borrowed it, they were further requested to indicate the percentage in range of the amount that they had borrowed from long-term loan.

Table 4.14 Usage Percentage of Long-term Loan

	Frequency	Percent
Not use	55	86
1-25%	5	8
26-50%	2	3
51-75%	2	3
76-99%	-	-
100%	-	-
Total	64	100

Source: Appendix (B)

According to table (4.14),8% of the respondents who indicate that they have borrowed 1-25%, 3% indicate that they have borrowed between 26-50% and 51-75%.

4.2.12 Use of Trade Credit

The respondents were asked to indicate if they had accessed trade credit from suppliers in the last three years. According to the table (4.15), 52% of the respondents indicate that they have used trade credit while only 48% indicate that they do not used trade credit.

Table 4.15 Use of Trade Credit

	Frequency	Percent
Use	33	52
Not use	31	48
Total	64	100

Source: Appendix (B)

According to Demurgic-Kunt and Maksimovic (2001), trade credit is important in alternative to bank loans as a source of external funding in the SME sector in every developed and developing economy. Trade credit is an agreement in which a supplier allows a business to delay payment for goods and services already delivered. Allowing payment to occur after the receipt of the goods and services helps the business to better management in their short-term cash flows. Trade credit is an alternative source of funding to credit provided by suppliers.

Table 4.16 Usage Percentage of Trade Credit

	Frequency	Percent
Not use	31	48
1-3 months	26	41
4-6 months	4	6
7-9 months	3	5
10-12 months	-	-
Total	64	100

Source: Appendix (B)

According to table (4.16), 41% of the firms are used trade credit for 1-3 months, 6% of the firms are used trade credit for 4-6 months and 5% of the firms are used trade credit for 7-9 months.

4.2.13 Use of Short-term Loan

The following table shows the use of short-term loan in their business operations.

Table 4.17 Use of Short-term loan

	Frequency	Percent
Use	15	23
Not use	49	77
Total	64	100

Source: Appendix (B)

Table (4.17) indicates that 77% of the respondents do not used short-term loan from suppliers and 23% of the respondents are used short-term loan. According to Muchugia (2013), there was significant positive relationship between short term debt financing and profitability because short-term debt tends to be less expensive and increasing it with a relatively low interest rate will lead to an increase in profit levels and therefore performance.

For those who answered that they have used it, they are further requested to indicate the range of the repayment period that they had used short-term loan in their business operations.

Table 4.18 Usage Percentage of Short-term Loan

	Frequency	Percent
Not use	49	77
1-3 months	3	4
4-6 months	5	8
7-9 months	1	2
10-12 months	6	9
Total	64	100

Source: Appendix (B)

According to table (4.18), 9% of the respondents use short-term loans for 10-12 months, 8% indicate that they use 4-6 months, 4% indicate that they use 1-3 months while 2% indicate that they use 7-9 months.

4.3 Owner's Capital

The study analyses the using of owner's capital in their business operations of respondents through the use of descriptive analysis. Owner's capital is measured using Five Point Likert Scale on six statements ranging from 1= strongly disagree to 5= strongly agree. Then, the mean score is calculated and interpreted as the respondents have used owner's capital. Table (4.19) shows the frequency distribution for owner's capital.

Table 4.19 Frequency Distribution for Owner's Capital

No.	Items	Mean	Standard deviation
OC1	It is more appropriate than other sources of finance.	4.25	0.816
OC2	It can reduce expenses (interest).	4.45	0.502
OC3	If you need capital in your business, you will add own money in your operations.	4.14	0.753
OC4	It can provide working capital.	4.34	0.570
OC5	You will not have to spend time and process and trying to secure other sources of funding from banks or microfinance.	4.36	0.574
OC6	It is more appropriate than trade credit.	3.84	1.072

Source: Appendix (C)

According to the table (4.19), the highest mean score is 4.45 for "It can reduce expenses (interest)". The other mean score are 4.36, 4.34, 4.25 and 4.14 for "They will not have to spend time and process and trying to secure other sources of funding from banks or microfinance", "It can provide working capital", "It is more appropriate than other sources of finance", and "If you need capital in your business, you will add own money in your operations". The lowest mean score is 3.84 for "It is more appropriate than trade credit".

4.4 Retained Earnings

The study analyses the using of retained earnings in their business operations of respondents through the use of descriptive analysis. The perspective of retained earnings is measured using Five Point Likert Scale on six statements ranging from 1= strongly disagree to 5= strongly agree. Then, the mean score is calculated and

interpreted as the respondents have used retained earnings. Table (4.20) shows the frequency distribution for retained earnings.

Table 4.20 Frequency Distribution for Retained Earnings

No.	Items	Mean	Standard deviation
RE1	It can re-use in your business operations.	4.17	0.579
RE2	Application of this funding reduces agency costs.	4.34	0.541
RE3	If you need capital, you will use in your firm's profit.	4.20	0.622
RE4	You will not have to spend time and process and trying to secure other sources of funding from banks or microfinance.	4.23	0.566
RE5	It can provide working capital.	4.14	0.639
RE6	It can provide capital.	4.27	1.597

Source: Appendix (C)

According to the table (4.20), the highest mean score is 4.34 for “Application of this funding reduces agency costs”. The other mean score are 4.27, 4.23, 4.20 and 4.17 for “It can provide capital”, “They will not have to spend time and process and trying to secure other sources of funding from banks or microfinance”, “If you need capital, you will use in your firm's profit” and “It can re-use in your business operations”. The lowest mean score is 4.14 for “It can provide working capital”.

4.5 Long-term Loan

The study analyses the using of long-term loan in their business operations of respondents through the use of descriptive analysis. The use of long-term loan in their business operations is measured using Five Point Likert Scale on seven statements ranging from 1= strongly disagree to 5= strongly agree. Then, the mean score is calculated and interpreted as the respondents have used long-term loan. Table (4.21) shows the frequency distribution for long-term loan.

Table 4.21 Frequency Distribution for Long-term Loan

No.	Items	Mean	Standard deviation
LL1	If you need capital, you will borrow long-term loan financing.	3.64	0.998
LL2	It can provide business expansion.	3.83	0.725
LL3	It can reduce financial distress.	3.84	0.739
LL4	It can provide capital.	3.88	0.766
LL5	It can be used in fixed time.	3.92	0.741
LL6	Flexible repayment period is convenient for SME to repay the loan.	3.55	0.890
LL7	Using of the funds increases investment for the prospects of SME.	3.78	0.806

Source: Appendix (C)

According to the table (4.21), the highest mean score is 3.92 for “it can be used in fixed time”. The other mean score are 3.88, 3.84, 3.83, 3.78 and 3.64 for “It can provide capital”, “It can reduce financial distress”, “It can provide business expansion”, “Using of the funds increases investment for the prospects of SME” and “If you need capital, you will borrow long-term loan financing”. The lowest mean score is 3.55 for “Flexible repayment period is convenient for SME to repay the loan”.

4.6 Trade Credit

The study analyses the using of trade credit in their business operations of respondents through the use of descriptive analysis. The use of trade credit is measured using Five Point Likert Scale on six statements ranging from 1= strongly disagree to 5= strongly agree. Then, the mean score is calculated and interpreted as the respondents have positive view on the use of trade credit. Table (4.22) shows the frequency distribution for trade credit.

Table 4.22 Frequency Distribution for Trade Credit

No.	Items	Mean	Standard deviation
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TC1	The funding is flexible credit terms.	3.63	0.826
TC2	It can reduce necessary of capital and credit ability.	3.81	0.774
TC3	It can create positive relationship with your suppliers.	3.72	0.899
TC4	This funding reduces on SME's financial distress.	3.81	0.924
TC5	Using of this fund reduces interest and other expenses.	3.83	0.827
TC6	It is more appropriate than other sources of finance.(renew)	3.97	0.712

Source: Appendix (C)

According to the table (4.22), the highest mean score is 3.97 for “It is more appropriate than other sources of finance (renew)”. The other mean score are 3.83 and 3.72 for “Using of this fund reduces interest and other expenses”, and “It can create positive relationship with your suppliers”. The other mean score of “It can reduce necessary of capital and credit ability” and “This funding reduces on SME's financial distress” are 3.81. The lowest mean score is 3.63 for “The funding is flexible credit terms”.

4.7 Short-term Loan

The study analyses the using of short-term loan in their business operations of respondents through the use of descriptive analysis. The use of short-term loan is measured using Five Point Likert Scale on six statements ranging from 1= strongly disagree to 5= strongly agree. Then, the mean score is calculated and interpreted as the respondents have used short-term loan. Table (4.23) shows the frequency distribution for short-term loan.

Table 4.23 Frequency Distribution for Short-term Loan

No.	Items	Mean	Standard deviation
SL1	Most short-term loans are processed quickly.	3.45	0.872
SL2	Short-term loans are usually obtained faster than	3.55	1.038

	long-term loan.		
SL3	It can manage current liabilities.	3.55	1.007
SL4	It can easily borrow from banks and microfinance.	3.52	1.069
SL5	It can provide working capital requirements.	3.64	0.824
SL6	Short-term loans are flexible repayments terms.	3.56	0.889

Source: Appendix (C)

According to the table (4.23), the highest mean score is 3.64 for “It can provide working capital requirements”. The mean score of “Short-term loans are usually obtained faster than long-term loan” and “It can manage current liabilities” are 3.55. The other mean score are 3.56 and 3.52 for “Short-term loans are flexible repayments terms” and “It can easily borrow from banks and microfinance”. The lowest mean score is 3.45 for “Most short-term loans are processed quickly”.

4.8 Firm Performance

The study analyses the status of performance in their business operations of respondents through the use of descriptive analysis. The status of performance in their business operations is measured using Five Point Likert Scale on seven statements ranging from 1= strongly disagree to 5= strongly agree. Then, the mean score is calculated and interpreted as the respondents have satisfied the performance. Table (4.24) shows the frequency distribution for firm’s performance.

Table 4.24 Frequency distribution for Firm’s Performance

No.	Items	Mean	Standard deviation
FP1	I satisfy on my profits.	4.08	0.65
FP2	Income is more increased than previous year.	4.02	0.845
FP3	Sale is more increased from year to year.	4.06	0.71

FP4	I satisfy on my return on equity.	3.97	0.908
FP5	I can systematically manage in my business expenses.	4.09	0.555
FP6	The firm can be produced good quality products.	4.14	0.663
FP7	The firm can make more donations.	4.30	0.706

Source: Appendix (C)

According to the table (4.24), the highest mean score is 4.30 for “The firm can make more donations”. The other mean score are 4.14, 4.09, 4.08, 4.06 and 4.02 for “The firm can be produced good quality products”, “I can systematically manage in my business expenses”, “I satisfy on my profits”, “Sale is more increased from year to year” and “Income is more increased than previous year”. The lowest mean score is 3.97 for “I satisfy on my return on equity”.

4.9 Multiple Regression Analysis

Multiple regressions is conducting to determine the relationship between firm performance (as dependent variable) and owner’s capital, retained earnings, long-term loan, trade credit and short-term loan (as independent variables) in the study. In this study, R^2 for this model is 0.231 which indicates 23.1% of the variation in the firm performance (dependent variable) can be explained by owner’s capital, retained earnings, long-term loan, trade credit and short-term loan (as independent variables).

The result of regression analysis shows the independent variables; that are owner’s capital, retained earnings, long-term loan, trade credit and short-term loan. They can predict the respondents’ firm performance. These two variables are significant at the 0.1 level. However, long-term loan, trade credit and short-term loan cannot predict the firm’s performance of respondents in this study.

Model	Unstandardized Coefficients		t	Sig.	VIF
	B	Std. Error			
(Constant)	1.862	0.764	2.439	0.018	
Owner’s capital	0.146**	0.085	1.723	0.090	1.062
Retained earnings	0.390*	0.136	2.865	0.006	1.186

Long-term loan	0.030	0.085	0.350	0.727	1.145
Trade credit	0.064	0.116	0.555	0.581	1.238
Short-term loan	-0.075	0.096	-0.785	0.436	1.202
R ²	0.231				
Adjusted R ²	0.165				
F-value	3.481**				

Table 4.25 Regression analysis showing the effects of financing on firm's performance

Source: Appendix (D)

Statistical significance indicate*at 1% level and ** at 10% level

The variable that generates the highest t-value is the most significant and that which generates the lowest t-value is the least significant. From the table 4.25 of coefficients, retained earnings financing has the highest t-value of 2.865 hence the most significant while owner's capital financing has the lowest t-value of 1.723 hence the least significant.

The study states that owner's capital financing is found to be significant on firm's performance with a significance level of 0.090 which is less than 0.1. This implies that an increase in owner's capital leads to an increase in firm's performance.

The result reveals that there is a positive and significant relationship between retained earnings and firm's performance with a significant level of 0.006 which is less than 0.01. This implies that an increase in retained earnings leads to an increase in firm's performance.

Long-term loan is found not to be significant on firm's performance with significant level of 0.727 which is greater than 0.1. This implies that an increase in long-term loan leads to a decrease in firm's performance.

There is a negative and not significant relationship between trade credit financing and firm's performance with a significant level of 0.581 which is greater than 0.1. This implies that an increase in trade credit leads to a decrease in firm's performance.

Short-term loan is found not to be significant on firm's performance with significant level of 0.436 which is greater than 0.1. This implies that an increase in short-term loan leads to a decrease in firm's performance.

The regression model is used for the estimation of a dependent variable and many independent variables. They are as follows:

$$Y = a + bx + e$$

$$FP = a + b_1OC + b_2RE + b_3LL + b_4TC + b_5SL + e$$

Where; FP = Firms' performance

a = Constant

e = Error

B = Coefficient

OC = Owner's capital

RE= Retained earnings

LL= Long-term loan

TC = Trade credit

SL= Short-term loan

The β values can be used to construct the following predictive model of owners' and managers' firm performance.

$$FP = 1.862 + 0.146OC + 0.390RE + 0.30LL + 0.064TC - 0.075SL$$

According to the linear regression model, the value for owner's capital is 0.146 and this means that the respondents' firm performance can be increased by 14.6% if one unit of owners' capital increases in the current study. And the value for retained earnings is 0.390 and this means that the respondents' firm performance can be increased by 39% if one unit of retained earnings increases in the current study.

4.10 Summary

This chapter analyzed the effects of financing on firm performance of manufacturing firms in Sagaing City. According to the results, 94% of respondents

are owners of the firm and 6 % are managers. So, most of the respondents are owners of the firm. Therefore, all of the firms are used own money and retained earnings financing in their business operations. Most of the firms are used trade credit and a little of them are used long-term loan and short-term loan. In addition, organic sources of financing have positive effect on firm performance and external sources of financing have negative effect on firm performance of manufacturing firms in Sagaing City.

CHAPTER 5

CONCLUSION

This chapter describes findings based on the analysis in the preceding chapter to reach the objective of the thesis. Moreover, suggestions and needs for further researches are also presented in this chapter.

5.1 Findings and Discussions

This study analyses the sources of financing of manufacturing firms in Sagaing City. The objective of this study is to analyze the effects of financing on the firm performance of manufacturing firms in Sagaing City. The financing sources of manufacturing firms are owner's capital, retained earnings, long-term loan, trade credit and short-term loan. The firm performance is measured by using five-point likert scale based on the average score items to ascertain in the firm performance.

According to the analysis, 94% of respondents are owners of the firm and 6 % are managers of the firm. All of the firms are used owner's capital and retained earning financings in their operations. Eighty-six percent of the respondents do not used long-term loan and 14% are used long-term loan. Fifty-two percent of the respondents indicate that they used trade credit while only 48% indicate that they do not used trade credit. Seventy-seven percent of the respondents do not used short-term loan from financial institutions and 23% of the respondents used short-term loan. According to the analysis of the current problem of the firms, it is found that 45% of the firms are competition, 14% of the firms are finding customers and access to finance, 13% of the firms are cost of production or labor, 11% of the firms are availability of skilled staff and 3% of the firms are other problems. This means that different firms have facing different problems of manufacturing firm in Sagaing City.

Multiple regressions is conducting to determine the effect of firm performance and owner's capital, retained earnings, long-term loan, trade credit and short-term loan in the study. In this study, R^2 for this model is 0.231 which indicates 23.1% of the variation in the firm performance (dependent variable) can be explained by owner's capital, retained earnings, long-term loan, trade credit and short-term loan (as independent variables).

Owner's capital financing has a significant effect on firm performance because all of the respondents used owner's capital in their operating activities. And then, retained earnings financing has a significant effect on firm performance because most of the respondents re-used retained earnings in their operating activities. Long-term loan financing, trade credit financing and short-term loan financing has not a significant effect on firm performance. Most of the respondents did not like on the using of long-term loan, trade credit and short-term loan because they do not have the familiarity with the processes of bank and they do not have know-how about financing policies.

5.2 Suggestions and Recommendations

SMEs are the backbone of all economies and a key sources of economic growth in advanced in industrialized countries as well as in emerging and developing economies. Therefore, they should be able to operate consistently and become sustainable in the long run. This study provides the following recommendations to the challenges face by SMEs in acquiring finances from financial institutions.

Commercial banks need to promote transparency by making publishing banks charges and interest rates regularly. The government should encourage lenders to share the financing risks with the government in order to reduce the cost of financing. As repayment of loan can be made in easy installments, it does not provide to be much of a burden on the business.

According to the findings, it can be recommended that manufacturing firms should continuously add financing for their firm expand, produce new products and acquire latest technology significantly to increase in their profitability. Owners and managers of manufacturing firms should consider whether owner's capital financing and retained earnings financing are important determinants of firm performance. Moreover, they should use loan to invest in capital assets with relatively higher productivity abilities so that they may improve their firm performance. The study recommends that Small and Medium Enterprises (SMEs) should make use long-term loan financing, trade credit financing and short-term loan financing for them to realize higher level of firm performance.

5.3 Conclusion of the Study

The aim of the study is to analyze the effects of sources of financing and its performance. Hypotheses for the study are tested quantitatively. Data from 64 manufacturing firms in Sagaing City were used for analysis. Owners or managers of manufacturing firms in Sagaing City were answered with structured questionnaires because they can be decided the right sources of financing. Statistical analysis were used in the research to verify if firm performance is dependent on factors, such as owners' capital, retained earnings, long-term loan, trade credit and short-term loan.

There are five variables in the study. They are owner's capital, retained earnings, long-term loan, trade credit, short-term loan and firm performance that they

were measured in previous chapter. The research framework proposed sources of financing have a positive effect on firm performance. The analysis of the study between owner's capital, retained earnings, long-term loan, trade credit, short-term loan and firm performance showed that not all the resources factors had a significant effect on firm performance. Only two factors had a significant effect on firm performance namely, owner's capital and retained earnings.

The findings of this study supports empirical evidence posit that all resources dimensions are not important drivers of performance. The first hypothesis of the study stated that owner's capital financing has positive effect on firm performance and this effect is statistically significant in predicting firm performance of manufacturing firms. Manufacturing firms that use owner's capital financing will expand their business operations and experience significant increase in their firm performance. They should consider that they can be used limit mount.

The second hypothesis of the study stated that retained earnings financing has positive effect on firm performance and this effect is statistically significant in predicting firm performance of manufacturing firms. Manufacturing firms that use retained earnings financing will expand their business operations and experience significant increase in their firm performance. They should consider that there is not available to a new business and may not make enough profit to re-use in their operations. It is an uncertain source of funds as the profits of business are fluctuating.

The third hypothesis stated that long-term loan financing has negative effect on firm performance and this effect is not statistically significant in predicting firm performance of manufacturing firms. Most of the respondents do not use long-term loan because the system of banking processes are complicated for them. If the manufacturing firms that use long-term loan financing, they will expand their business operations and experience significant will increase in their firm performance. These funds are spread over a period of time which is good for budgeting.

The fourth hypothesis stated that trade credit financing has negative effect on firm performance and this effect is not statistically significant in predicting firm performance of manufacturing firms. Most of the respondents used trade credit in their operations but they do not like the use of trade credit financing. They do not know trade credit is a convenient and continuous source of funds. Trade credit may be readily available in case the credit worthiness suppliers. If the manufacturing firms

that use trade credit financing, they will expand their business operations and experience significant will increase in their firm performance. They should be considered trade credit financing need to promote the sales of the firms.

The fifth hypothesis of the study stated that short-term loan financing has negative effect on firm performance and this effect is not statistically significant in predicting firm performance of manufacturing firms. If the manufacturing firms that use short-term loan financing, they will expand their business operations and experience significant will increase in their firm performance. Banks and micro-finance institutions provide timely assistance to business by providing funds as and when needed by it. Loan from a bank is a flexible source of finance as the loan according to business need and can be repaid in advance when funds are not needed.

From the study, it is clear that most of the respondents want to obtain different kinds of loan from financial institutions. Most of the firms continue to face the challenges in trying to access the financial assistance from financial institutions. Collateral requirements are a major cause of financing problems. Small business owners or managers do not know about financing policies of the financial institutions and they do not systematically prepared repayment schedule.

In summary, organic sources of financing have positive effect on firm performance of manufacturing firms in Sagaing City. External sources of financing have negative effect on firm performance of manufacturing firms in Sagaing City. By analyzing small and medium business, it is found that SMEs wish to borrow money from banks because it will be used in their business operations. The view of examination SME's is to facilitate better management practice and education of the owners of the firms for the importance to use loans from financial institutions to help them to expand their businesses and better their performance.

5.4 Needs for Further Study

The current study analyzes the effect of financing on firm performance of manufacturing firms in Sagaing City. Although there are many sectors of SMEs in Sagaing and other cities, the analyses are conducted base on the manufacturing firms in Sagaing 2019. This study excludes trading and service sectors of SMEs. If the study will include firm performance of other sectors, the performance of research will be enhanced.

Moreover, this study only focuses on firm performance of manufacturing firms in Sagaing area. This study may have been constrained by small target population and one respondent per firm. Future researchers should study more respondents and more variables. Therefore, other researchers should study by using other methods.

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Section A: Demographic Factors

1. Rank of respondent

☐

Owner

☐

Manager

2. Gender

☐

Male

☐

Female

3. Types of business

☐

Food and beverages

☐

Personal goods

☐

Clothing & wearing apparel

☐

Mineral and metal products

☐

Shelter

☐

Miscellaneous

4. Age

☐

Below 30 years

☐

31-40 years

☐

41-50

☐

51-60 years

☐

above 60 years

5. Education Level

☐

Primary

☐

Middle

☐

High

☐

Graduate

6. Duration of business

☐

1-5 years

☐

6-10 years

☐

11-15 years

☐

16-20 years

☐

21-25 years

7. How many employees do you have?

☐

1-15

☐

16-30

☐

31-45

☐

46-60

☐

61-75

8. What is currently the **most** pressing problem your firm is facing?

☐

Finding customers

☐

Competition

☐

Access to finance

☐

Costs of production or labor

☐

Availability of skilled staff or experienced managers

☐

Regulations

☐

Others

9. Do you use owner's capital in your firm operations?

☐ Yes ☐ No

If yes, how many percentages can you use?

☐ 1-25% ☐ 26-50% ☐ 51-75% ☐ 76-99% ☐ 100%

10. Do you use profits in your firm operations?

☐ Yes ☐ No

If yes, how many percentages can you use?

☐ 1-25% ☐ 26-50% ☐ 51-75% ☐ 76-99% ☐ 100%

11. Do you use long-term loan in your firm operations?

☐ Yes ☐ No

If yes, how many percentages can you use?

☐ 1-25% ☐ 26-50% ☐ 51-75% ☐ 76-99% ☐ 100%

12. Do you use trade credit in your firm operations?

☐ Yes ☐ No

If yes, what credit term do you use?

☐ 1-3 months ☐ 4-6 months ☐ 7-9 months ☐ 10-12 months

13. Do you use short-term loan in your firm operations?

☐ Yes ☐ No

If yes, what credit term do you use?

☐ 1-3 months ☐ 4-6 months ☐ 7-9 months ☐ 10-12 months

Please answer the following statements by using five point Likert Scale given below if the respondents agree each statement or not.

Owner's Capital (1 st Independent Variable)						
No.	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	It is more appropriate than other sources of finance.	1	2	3	4	5
2.	It can reduce expenses (interest).	1	2	3	4	5
3.	If you need capital in your business, you will add own money in your operations.	1	2	3	4	5
4.	It can provide working capital.	1	2	3	4	5
5.	You will not have to spend time and process and trying to secure other sources of funding from banks or microfinance.	1	2	3	4	5
6.	It is more appropriate than trade credit.	1	2	3	4	5

Retained Earnings (2 nd Independent Variable)						
No.	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	It can re-use in your business operations.	1	2	3	4	5
2.	Application of this funding reduces agency costs.	1	2	3	4	5
3.	If you need capital, you will use in your firm's profit.	1	2	3	4	5
4.	You will not have to spend time and process and trying to secure other sources of funding from banks or microfinance.	1	2	3	4	5
5.	It can provide working capital.	1	2	3	4	5
6.	It can provide capital.	1	2	3	4	5

Long-term Loan (3rd Independent Variable)						
No.	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	If you need capital, you will borrow long-term loan financing.	1	2	3	4	5
2.	It can provide business expansion.	1	2	3	4	5
3.	It can reduce financial distress.	1	2	3	4	5
4.	It can provide capital.	1	2	3	4	5
5.	It can be used in fixed time.	1	2	3	4	5
6.	Flexible repayment period is convenient for SME to repay the loan.	1	2	3	4	5
7.	Using of the funds increases investment for the prospects of SME.	1	2	3	4	5

Trade Credit (4th Independent Variable)						
No.	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	The funding is flexible credit terms.	1	2	3	4	5
2.	It can reduce necessary of capital and credit ability.	1	2	3	4	5
3.	It can create positive relationship with your suppliers.	1	2	3	4	5
4.	This funding reduces on SME's financial distress.	1	2	3	4	5
5.	Using of this fund reduces interest and other expenses.	1	2	3	4	5
6.	It is more appropriate than other sources of finance.(renew)	1	2	3	4	5

Short-term Loan (5 th Independent Variable)						
No.	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	Most short-term loans are processed quickly.	1	2	3	4	5
2.	Short-term loans are usually obtained faster than long-term loan.	1	2	3	4	5
3.	It can manage current liabilities.	1	2	3	4	5
4.	It can easily borrow from banks and microfinance.	1	2	3	4	5
5.	It can provide working capital requirements.	1	2	3	4	5
6.	Short-term loans are flexible repayments terms.	1	2	3	4	5

Firm Performance (Dependent Variable)						
No.	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	I satisfy on my profits.	1	2	3	4	5
2.	Income is more increased than previous year.	1	2	3	4	5
3.	Sale is more increased from year to year.	1	2	3	4	5
4.	I satisfy on my return on equity.	1	2	3	4	5
5.	I can systematically manage in my business expenses.	1	2	3	4	5
6.	The firm can be produced good quality products.	1	2	3	4	5
7.	The firm can make more donations.	1	2	3	4	5

Appendix-B**Rank of Respondents**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Owner	60	93.8	93.8	93.8
Manager	4	6.3	6.3	100.0
Total	64	100.0	100.0	

Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	55	85.9	85.9	85.9
Female	9	14.1	14.1	100.0
Total	64	100.0	100.0	

Types of Firms in the Study

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Food and beverages	13	20.3	20.3	20.3
Clothing & wearing apparel	3	4.7	4.7	25.0
Shelter	5	7.8	7.8	32.8
Personal goods	3	4.7	4.7	37.5
Mineral & metal products	3	4.7	4.7	42.2
Miscellaneous	37	57.8	57.8	100.0
Total	64	100.0	100.0	

Reliability of the Current Study

	No. of Items	Cronbach's Alpha
Owner's Capital	6	0.779
Retained Earnings	6	0.867
Short-term Loan	7	0.923
Trade Credit	6	0.855
Short-term Loan	6	0.911
Firm Performance	7	0.868

Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Below 30	10	15.6	15.6	15.6
30-40	7	10.9	10.9	26.6
41-50	21	32.8	32.8	59.4
51-60	20	31.3	31.3	90.6
Above 60	6	9.4	9.4	100.0
Total	64	100.0	100.0	

Level of Education

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Primary	6	9.4	9.4	9.4
Middle	13	20.3	20.3	29.7
High	19	29.7	29.7	59.4
Graduate	26	40.6	40.6	100.0
Total	64	100.0	100.0	

Duration of the Firm

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-5	13	20.3	20.3	20.3
6-10	19	29.7	29.7	50.0
11-15	9	14.1	14.1	64.1
16-20	13	20.3	20.3	84.4
21-25	10	15.6	15.6	100.0
Total	64	100.0	100.0	

No. of Employees

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-15	49	76.6	76.6	76.6
16-30	10	15.6	15.6	92.2
31-45	2	3.1	3.1	95.3
46-60	2	3.1	3.1	98.4
61-75	1	1.6	1.6	100.0
Total	64	100.0	100.0	

Cu

urrent Problem of the Firm

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Finding Customers	9	14.1	14.1	14.1

Competition	29	45.3	45.3	59.4
Access to Finance	9	14.1	14.1	73.4
Costs of production or labour	8	12.5	12.5	85.9
Availiability of skilled staff	7	10.9	10.9	96.9
Others	2	3.1	3.1	100.0
Total	64	100.0	100.0	

Usage Percentage of Owners' Capital

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 26-50%	2	3.1	3.1	3.1
51-75%	10	15.6	15.6	18.8
76-99%	10	15.6	15.6	34.4
100%	42	65.6	65.6	100.0
Total	64	100.0	100.0	

Usage Percentage of Retained Earnings

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-25%	8	12.5	12.5	12.5
26-50%	17	26.6	26.6	39.1
51-75%	17	26.6	26.6	65.6
76-99%	12	18.8	18.8	84.4
100%	10	15.6	15.6	100.0
Total	64	100.0	100.0	

Use of Long-term Loan

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Use	9	14.1	14.1	14.1
Not use	55	85.9	85.9	100.0
Total	64	100.0	100.0	

Usage Percentage of Long-term Loan

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0	55	85.9	85.9	85.9

1-25%	5	7.8	7.8	93.8
26-50%	2	3.1	3.1	96.9
51-75%	2	3.1	3.1	100.0
Total	64	100.0	100.0	

Use of Trade Credit

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Use	33	51.6	51.6	51.6
Not use	31	48.4	48.4	100.0
Total	64	100.0	100.0	

Usage Percentage of Trade Credit

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0	31	48.4	48.4	48.4
1-3 months	26	40.6	40.6	89.1
4-6 months	4	6.3	6.3	95.3
10-12 months	3	4.7	4.7	100.0
Total	64	100.0	100.0	

Use of Short-term Loan

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Use	15	23.4	23.4	23.4
Not use	49	76.6	76.6	100.0
Total	64	100.0	100.0	

Usage Percentage of Short-term Loan

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0	49	76.6	76.6	76.6
1-3 months	3	4.7	4.7	81.3
4-6 months	5	7.8	7.8	89.1
7-9 months	1	1.6	1.6	90.6
10-12 months	6	9.4	9.4	100.0
Total	64	100.0	100.0	

Appendix-C

Frequency Distribution for Owners' Capital

	N	Mean	Std. Deviation
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(OC) It is more appropriate than other sources of finance.	64	4.25	.816
(OC) It can reduce expenses (interest).	64	4.45	.502
(OC) If you need capital in your business, you will add own money in your operations.	64	4.14	.753
(OC) It can provide working capital.	64	4.34	.570
(OC) You will not have to spend time and process and trying to secure other sources of funding.	64	4.36	.574
(OC) It is more appropriate than trade credit.	64	3.84	1.072
Valid N (listwise)	64		

Frequency Distribution for Retained Earnings

	N	Mean	Std. Deviation
(RE) It can re-use in your business operations.	64	4.17	.579
(RE) Application of this funding reduces agency costs.	64	4.34	.541
(RE) If you need capital, you will use in your firm's profits.	64	4.20	.622
(RE) You will not have to spend time and process and trying to secure other sources of funding.	64	4.23	.556
(RE) It can provide working capital.	64	4.14	.639
(RE) It can provide capital.	64	4.27	.597
Valid N (listwise)	64		

Frequency Distribution for Long-term Loan

	N	Mean	Std. Deviation
(LL) If you need capital, you will borrow long-term loan.	64	3.64	.998
(LL) It can provide business expansion.	64	3.83	.725
(LL) It can reduce financial distress.	64	3.84	.739
(LL) It can provide capital.	64	3.88	.766
(LL) It can be used in fixed time.	64	3.92	.741
(LL) Flexible repayment period is convenient for SME to repay the loan.	64	3.55	.890
(LL) Using of the funds increase investment for the prospects of SME	64	3.78	.806
Valid N (listwise)	64		

Frequency Distribution for Trade Credit

	N	Mean	Std. Deviation
(TC) The funding is flexible credit terms.	64	3.62	.826

(TC) It can reduce necessary of capital and credit ability.	64	3.81	.774
(TC) It can create positive relationship with your suppliers.	64	3.72	.899
(TC) This funding reduces an SME's financial distress.	64	3.81	.924
(TC) Using of this fund reduces interest and other expenses.	64	3.83	.827
(TC) It is more appropriate than other sources of finance (renew).	64	3.97	.712
Valid N (listwise)	64		

Frequency Distribution for Short-term Loan

	N	Mean	Std. Deviation
(SL) Most short-term loans are processed quickly.	64	3.45	.872
(SL) Short-term loans are usually obtained faster than long-term loan.	64	3.55	1.038
(SL) It can manage current liabilities.	64	3.55	1.007
(SL) It can easily borrow from banks and micro-finance.	64	3.52	1.069
(SL) It can provide working capital requirements.	64	3.64	.824
(SL) Short-terms loans are flexible repayment terms.	64	3.56	.889
Valid N (listwise)	64		

Frequency Distribution for Firm Performance

	N	Mean	Std. Deviation
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	Statistic	Statistic	Std. Error	Statistic
(FP) I satisfy on my profits.	64	4.08	.081	.650
(FP) Income is more increased than previous years.	64	4.02	.106	.845
(FP) Sale is more increased from year to year.	64	4.06	.089	.710
(FP) I satisfy on my return on equity.	64	3.97	.113	.908
(FP) I can systematically manage in my business expenses.	64	4.09	.069	.555
(FP) The firm can be produced good quality products.	64	4.14	.083	.663
(FP) The firm can make more donations.	64	4.30	.088	.706
Valid N (listwise)	64			

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.480 ^a	.231	.165	.51821

a. Predictors: (Constant), MSL, MOC, MLL, MRE, MTC

b. Dependent Variable: MFP

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	4.674	5	.935	3.481	.008 ^b
Residual	15.576	58	.269		
Total	20.250	63			

a. Dependent Variable: MFP

b. Predictors: (Constant), MSL, MOC, MLL, MRE, MTC

Coefficient^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.862	.764		2.439	.018		
MOC	.146	.085	.204	1.723	.090	.942	1.062
MRE	.390	.136	.357	2.865	.006	.856	1.168
MLL	.030	.085	.043	.350	.727	.873	1.145
MTC	.064	.116	.071	.555	.581	.808	1.238
MSL	-.075	.096	-.099	-.785	.436	.832	1.202

a. Dependent Variable: MFP