

Effect of Financing Sources on Firm Performance: A Study of Indian Private Limited Small and Medium Enterprises

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Abstract : This paper aims to study the relationship between funding sources and firm performance of Indian private limited SMEs using cross-sectional data obtained from a nation-wide census. A unique feature of the study is that it analyses firms that use only one form of external funding. Employing Propensity Score Matching, we find that obtaining any form of external finance has a negative influence on equivalents of profit margin and return on assets and a negative influence on asset turnover of small firms. But, the impact of institutional sources of funding on small enterprises is found to be lesser than that of non-institutional sources of funding. External/institutional sources of funding have a less negative impact on the profit margin for medium enterprises and have no significant influence on other measures of performance. The contribution of this research is the discovery of institutional sources wielding a lesser influence on performance measures considered. It is also found that institutional sources can benefit small enterprises more than medium enterprises.

Keywords : external finance, institutional finance, non-institutional finance, performance, India, SME

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