EFFECT OF FIRM SPECIFIC CHARACTERISTICS ON FINANCIAL INCLUSION OF MSMES: EVIDENCE FROM TELANGANA STATE

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Abstract
The aim of the paper was to establish the relationship between the firm specific characteristics and financial inclusions and to study the impact of specific characteristics on financial inclusion evidence from enterprises in Telangana state. This study employed positivism approach while adopting an explanatory survey research. The target population of study comprised 8065 MSMEs in the erstwhile Nalgonda District. Convenient sampling was employed to group MSMEs in study area while simple random was used to select a sample size of 400. Simple linear regression model used to draw the findings. From the analysis it can be revealed that there is a positive and significant effect of firm size on financial inclusion and firm age, Type of ownership structure of the enterprises has a negative effect on financial inclusion. It can inform form the results that the financial institutions are mainly focusing on the medium and small enterprises. However, the age and ownership have significant positive correlation with financial inclusion. Government of India has invested enormous resources for the development of Micro category enterprises MUDRA is one of that. Hence it is pertinent to study the factors effecting firms' financial inclusion then only the real beneficiaries get benefited from the funds available to them from the formal financial set up. Therefore, these results will be used to package the literacy education geared on factors that contribute highest to financial inclusion. From the findings of the study, older MSMEs and other than company form of originations are encouraged to keep up to date of the trends in business for financial access.

Keywords: Financial Literacy, MSMEs, Firm Age, Firm Size, Financial Inclusion.

1. Introduction

Financial inclusion is a process of ensuring an easy access to available to financial services and products to at an affordable cost to the individuals, firms and business enterprises. easy access to finance plays an important role in the survival and growth of any enterprises especially the firms which are completely depend upon the formal sources of financial like MSMEs. the recent days these firms most vulnerable due to heavy financial burden. Micro, Small and Medium Enterprises are being considered as one of the key sectors for the development of any county. Their role in developed countries is vast; their contribution in GDP is more than fifty percent. In developing countries like India their role indefinable by giving adequate finance on time to these enterprises will create employment, urbanization, and boost the economy with tax collection and exports. The credit delivery committee (2019) stated that most of these enterprises are shut down due to financial crises. The study conducted by the world soft loan international financial corporation (2020) stated there is huge credit gap in this sector. The present study focusing on the factors which are affecting the firm easy access to finances form formal financial institutions.

2. Empirical Review

The empirical literature suggests a strong connection between Financial Inclusion and specific attributes of firms (Kira & He, 2012). Previous research has highlighted the significant impact of these

factors on financial inclusion, prompting their consideration in this study. For instance, Kumar & Rao (2015) observed that a company's age plays a pivotal role in shaping its financial decisions. Young and newly established firms tend to lean towards bootstrap financing, often relying on owner financing. This inclination can be attributed to their limited ability to build a reputation, establish credibility, and accumulate tangible business assets that would enable them to secure credit on favorable terms (Serrasqueiro& Nunes, 2012). Additionally, Dwyer & Gilmore (2017) discovered that a firm's market orientation varies depending on its size, making it imperative to control for this variable. Le (2012) identified that specific firm characteristics, represented by firm dummies, exert a statistically significant influence on the likelihood of financial inclusion. Burkart and Ellingsen (2004) demonstrated that larger firms tend to experience greater financial inclusion and enhanced access to financing. This observation aligns with the findings of Beck and Demirguc-Kunt (2006), Kira and He (2012), and Mulaga (2013), all of whom concluded that larger firms generally enjoy greater access to financing compared to their smaller counterparts. Moreover, Odeyemi (2010) and Fatoki and Asah (2011) reported a positive association between firm size and access to finance. Le (2012) corroborated this by highlighting the positive relationship between firm size and access to bank loans, a trend also observed in the context of Vietnam. Another influential factor is a firm's maturity, measured in terms of years in operation. Research conducted by Fatoki& Asah (2011), Kira & He (2012), and Le (2012) consistently indicated that as the age of a firm increases, it positively affects the probability of securing a bank loan.

2.1 Firm Size and Financial Inclusion
The size of a firm plays a pivotal role in influencing its financial inclusion, as underscored by Burkart and Ellingsen (2004). Large firms, owing to their diversified operations, tend to exhibit greater stability, with size effectively serving as a surrogate for insolvency risk, as noted by Honhyan (2009). Cassar (2004) further pointed out that smaller firms often face higher costs when addressing issues related to information asymmetry with lenders. Fatoki and Asah (2011) shed light on how firm size impacts financial inclusion and access to finance for small and medium-sized enterprises (SMEs), highlighting that smaller enterprises encounter less favoritism compared to their larger counterparts when dealing with commercial banks. Consequently, it is reasonable to hypothesize a positive association between firm size and SMEs' financial inclusion.

A multitude of studies, including Francisco and Kumar (2005), Kunchev et al. (2012), Bigsten et al. (2003), Beck et al. (2005), Vergas and Mauricio (2012), and Nikaido et al. (2015), have consistently shown that size serves as a significant predictor of financial inclusion. However, it is important to note that the impact of size on financial inclusion is intertwined with the perception of higher risks and costs associated with lending to small businesses as compared to larger firms. When banks extend credit to borrowers, their primary goal is to minimize risk while maximizing returns, as emphasized by Chapman and Martin (2007). One key risk banks face is the possibility of lending to high-risk borrowers with a low likelihood of repayment. One effective way to mitigate this risk is if the lending bank possesses information that allows it to reasonably assess the level of risk involved, as highlighted by Cressy (2000) and Kasekende (2001).

In this regard, smaller businesses are more informationally opaque than large firms. Little, if any, public information is known about their performances because they scarcely have public equity or debt securities (Board of Governors of the Federal Reserve System, 2012). More so, Binks and Ennew (1996) pointed out that small businesses have poor or no audited financial statements and performance analysis was done by external organizations. Hence, the argument that small firms are likely to be

screened out of the credit market because of information opacity is acute in small businesses. In addition to the problem of information opacity associated with SMEs, another problem is that small firms are more likely than large firms to be associated with real risk (Lung and Wright, 1999, and Gertler and Gilchrist, 1991). It is has been argued that during times of economic downturn, small businesses are less able to survive due to fewer opportunities for diversification (Klapper et al.,2002, Hughes and Storey, 1994). Contrasting these with large firms that are more diversified, established and older, hence their ability to cope with economic downturn is greater (Brewer et al., 1996). Saito and Villanueva (1981) argued that all of the above-mentioned differences translate to a higher transaction cost of lending to small businesses as compared to large firms. According to Saito and Villanueva (1981), the real cost of lending to small businesses as compared to large firms is approximately twice as great. Thus, the study argues that firm size has effect on financial inclusion.

2.2 Firm age and Financial Inclusion

Firms at the early stage of operation used to experience difficulties in and financial inclusion because of informational disparities. For example, According to Diamond (2013), lenders learn certain characteristics of borrowers over the years, and decide whether to grant credit according to the obtained information. Thus, trade credit may play a relevant role for younger firms that have not yet acquired a sufficient level of reputation, credit worthiness, and size, and therefore present low debt capacity. The longevity of the firm stays in operation, the more persistence to unpleasant economic circumstances (Chandler, 2009). The study conducted by Klapper (2010) discovered that, the firms with less than 5 years (younger firms) in operation are less likely to be financially included. Ngoc, Le and Nguyen (2009) supported the argument that younger firms face hardship and more costs in accessing external financing from lenders because information asymmetry. Consequently, it is hypothetical existence of a positive relationship between firm's age and Financial Inclusion. The main thrust with the age of the firm and bank credit availability is that the firm's age is expected to have a dampening effect on the perceived higher risk associated with lending to SMEs. Study by Men and Dong (2014) carried out on emerging economies found evidence to suggest that younger and smaller firms are more credit constrained than older firms. A study done by Federal Reserve Board of Governors (2012) in US notes that older firms have more success than younger firms of the same size in getting loans from commercial banks. These differences are attributed to the fact that older firms have more records or information available for credit decisions, than younger firms. Hence, they are more likely to be granted a loan rather than the younger, informationally opaque firms. Berger and Udell (1995) found that the older the firm, the lower the loan rate charged by the banking institution. Their result showed that a small firm, with all criteria equal except it was 10 years older, paid a 33 basis point less on loan rate. In addition to the above finding, Korting and Harhoff (1998) further found in their study of German SMEs that a firm's age had a positive correlation with the cost of the loan as well as the collateral requirement. However, a study by Yang et al. (2012) on 113 developing countries suggested that once the size of the firm was controlled, the age of the firm had no significant effect on credit availability.

2.3 Forms of organization (Type of Ownership) and Financial Inclusion

Firms with more than owner or entrepreneur is easily accessing financial instruments from the institutions Judith and Robert (2021), Musamil and Tars (2013) in their analysis they stated that ownership of the plays an important role in accessing finance, and they are concluded that the institutions are focusing on the firm with more than one owner. Venkataramanaiah (2022) stated the among the three variables of age, size and ownership of the firm's ownership is predominant role in

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accessing and utilizing financial services. A multitude of studies, including Kumar and Rao (2005), Kunchev et al. (2012), Bigsten et al. (2003), Beck et al. (2005), Vergas and Mauricio (2012), and Nikaido et al. (2015), have consistently shown that form of organization serves as a significant predictor of financial inclusion of the enterprises. These three variables are considered as independent variable of the study in assessing the financial inclusion of MSMEs. Kane (2019) found that significant association between

3. Objectives of the study
1. To ascertain the impact of Firm size on Financial Inclusion
2. To ascertain the impact of Age of the firm on Financial Inclusion
3. To ascertain the impact of Type of ownership on Financial Inclusion

4. Hypotheses of the study
H_{01}: Size of the firm not significantly impact on financial inclusion
H_{02}: Age of the firm not significantly impact on financial inclusion
H_{03}: Type of ownership of the firm not significantly impact on financial inclusion.

5. Methodology
The study employed positivism approach and adopted an explanatory survey research. The design chosen is appropriate because it applies closely to the research objectives of this study and is practical in testing the study hypotheses. The target population of study comprised 8065MSMEs located in Nalgonda District of Telangana State. Access to formal finance is not an easy task for the MSMEs. They have myriad of hurdles which are due to inability of them to be managed professionally and lack of requisite financial management skills thus they rarely have reliable books of accounts for ease of loan evaluation. while convenance sampling method was used to select a sample size of 400. The study utilized primary data derived from interviews using structured questionnaires. Measurement of Variables Financial inclusion scale was adopted form the Bongomenet.. al (2017), Marun Eton et..al , Kane (2019) scale. A fourteen-item instrument was developed on a five-point likert scale of 1– 5 (1 = strongly disagree to 5 = strongly agree). Firm age was measured from the information obtained from the question "how long has the business been operating?" The information was coded in values such that 1 represented "Less than 5 years ", 2 represented "5-10 years", 3 represented "11-15 years", 4 represented "16-20 years" while 6 represented "Above 20 years".

Firm size was measured from the information obtained from the respondents. The information was coded in values such that 1 represented "Micro ", 2 represented "Small" 3 represented "Medium". The investment and turnover have been taken according to the definition given by the ministry of MSMEs. Firm ownership is measured by the data collected from the respondents and the information coded as 1 represents "Family owned form of organizations, 2 represents "Sole proprietorship ownership, 3 represented " Partnership form and 4 represents " Company form of organizations. Data was analyzed using descriptive statistics such as frequency, percentage, mean and standard deviations for firm age, entrepreneur age, firm size, type of ownership and financial inclusion. Inferential analysis which included Pearson correlation and Simple linear regression were used to test all hypotheses required for this research, with a significance alpha value = .05. Simple linear regression models used in this for all given variables.

$FI= a+ \beta1fs + e$

$FI = a+ \beta2fa + e$

$FI = a+ \beta3fo + e$

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FI =Financial Inclusion (Dependent variable)

a= Regression constant or Intercept.

β1, β2, β3= the slope which represents the degree in which financial inclusion change according to the independent variable change by one-unit.

fs= firm size (Independent Variable)

fa= firm age (Independent Variable)

fo =firm ownership (Independent Variable)

6. Findings of the study

The section begins with the firm characteristics of the respondents and the MSMEs, results on the objectives, and then, correlation and regression analysis.

Table 1: MSMEs Specific Characteristics

Characteristics	Sub Group	Number of Enterprises	Percentage
Size	Micro	223	55.75
	Small	143	35.75
	Medium	34	8.5
Type of Ownership	Family owned	21	5.25
	Sole proprietorship	278	69.50
	Partnership	74	18.50
	Company form of organizations	27	6.75
Age Group	Up to 5 years	79	19.8
	5 -10 years	106	26.5
	11 – 15 years	95	23.7
	16- 20 years	59	14.7
	More than 20 years	61	15.3
Total		**400**	**100**

Source: Compiled from Primary Data

The above table depicts the details of MSMEs in Nalgonda District, the three major characteristics are presented in above table are size, age and type of ownership of the enterprises. regarding the size of the enterprises 34 (8.5%) are medium sized enterprises, 143 are small sized enterprises and 223 (55.75) are micro category firms, regarding ownership most of them 273 (69.5%) are belongs to sole proprietorship firm, 74 (18.5%) are belongs to partnership firms, 27 (6.75) are belongs to company form of organizations and only 21 (5.25%) belongs to family owned form of organization, regarding age of the enterprises 79 (19.8%) are belongs to less than 5 years age group category, 105 (26.3%) are belongs to 5 -10 years age group, 95 (23.8%) are belongs to 11- 15 years, 59 (14.8%) are belongs to 16 -20 years age group and 62 (15.5%) are belongs to more than 20 years age group. Further analysis is carried out with the help of Simple Linear Regression technique.

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Table 2
Regression model summaries for the financial inclusion and size of the enterprises

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0.370	0.137	0.135	.82693	.137	63.264	1	398	0.000
a. Predictors: (Constant), Size of Enterprise									
b. Dependent Variable: Financial Inclusion									

Source: Compiled from primary data

Form the table 2 it can be interprets that the size of the enterprises has significant relationship with financial inclusion of the enterprise. The value **(r=0.37)** indicates a positive and a moderate relationship between the variables. Ownership structures of the enterprise. The size of the enterprise has working has more efficient factor while accessing finances from the formal financial institution. Here the r^2 value **(0.137)** indicates that more than 13% of the change in our independent variable financial inclusion has been predicted by out independent variable size of the firm. It can be concluding that the model predicting the dependent variable.

Table 3
Predicator effects and beta estimates (Unstandardized) for financial inclusion associated with size of the firm

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.673	.106		25.227	.000
	Size of Enterprise	.508	.064	.370	7.954	.000
a. Dependent Variable: Financial Inclusion						

Source: Compiled from Primary Data

The coefficient summary shown in table 3revealed that beta values of size of the firm (0.508, t= 7.954, p=0.000) was significant predictor of financial inclusion. The results were implicit that predicator variable was related with dependent variable. Hence the null hypothesis (H_{01})was disapproved the p value is less than 0.05.

Here is the following simple linear regression

Financial Inclusion=2.673+0.508(Size of the Firm)

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Table 4
Regression model summaries for the Financial Inclusion and Age of the Enterprises

Model Summary									
Mo del	R	R Squar e	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Chan ge	df1	df2	Sig. F Change
1	.031	.011	.009	.88981	.001	.375	1	398	.541
a. Predictors: (Constant), Age of the Firm									
b. Dependent Variable: Financial Inclusion									

Source: Compiled from primary data

The research model predicts financial inclusion. R denotes the correlation between age of the firm and financial inclusion. For this research model, **r = 0.031.** Since this is a very low correlation, our model not efficiently predicts financial inclusion. R Square = **0.011** indicates the proportion of variance in the predicted variable financial inclusion that can be "explained" by our predictor variable Financial Literacy. Here the the column "Sig" holds the value more than 0.05 indicates insignificant results. The age is not a predicator of financial inclusion of MSMEs.

Table 5
Predicator effects and beta estimates (Unstandardized) for financial inclusion associated with age of the firm

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.518	.105		33.558	.000
	Age of the Firm	.025	.034	-.036	3.728	.467
a. Dependent Variable: Financial Inclusion						

Source: Compiled from Primary Data

The coefficient summary shown in table 5revealed that beta values of age of the firm (0.508, t= -3.728, p=0.000) was significant predictor of financial inclusion. The results were implicit that predictor variable was related with dependent variable. Hence the null hypothesis (H_{02}) was disapproved the p value is less than 0.05.
Here is the following simple linear regression

Financial Inclusion=3.518+ (0.025) (Age of the Firm)

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Table 6
Regression model summaries for the Financial Inclusion and Ownership Structure of the Enterprise

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.034	.002	.001	.88973	.001	.451	1	398	.502
a. Predictors: (Constant), Type of Ownership									
b. Dependent Variable: Financial Inclusion									

Source: Compiled from primary data

Form the table 4 it can be interpreted that the financial inclusion of the enterprises has significant relationship between ownership structures of the enterprise. However only 2% (r=0.002) of the variance in firm access to finance (financial inclusion) is explained by our constant variable type of ownership. However, the "r" value indicates a relation between the variables. It can be interpreting that ownership structure of the organization has not much significant impact its formal sources of accessing.

Table 7
Predicator effects and beta estimates (Unstandardized) for financial inclusion associated with ownership structure of the firm

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.396	.090		37.601	.000
	Type of Ownership	.036	.053	.034	5.672	.502
a. Dependent Variable: Financial Inclusion						

Source: Compiled from Primary Data

The coefficient summary shown in table 5 revealed that beta values of ownership of the firm (0.036, t= -5.672, p=0.000) was significant predicator of financial inclusion. The results were implicit that predicator variable was related with dependent variable. Hence the null hypothesis (H_{03}) was disapproved the p value is less than 0.05.

Here is the following simple linear regression

Financial Inclusion=3.396+ 0.36 (Ownership of the Firm)

7. Conclusion of the Study

The study aimed to find out the factors affecting financial inclusion of MSMEs. from the analysis it can be found that size, age and ownership structure of the enterprise as significant relationship with financial accesses of the business enterprise. Find significant positive correlation between financial inclusion and independent variables. The size of enterprises affecting the financial inclusion of MSMEs. More than 13% (R^2=0.137) of variance in financial inclusion is affected by the size of the firm. The remaining factors are not significantly affecting the financial access of the firm. It is clearly confined that size of the firm have influencing the easy access of the firm independently more as compare to other variables taken in the study. Form the analysis of the study it can be identified that the financial institutions are not focusing on the enterprises which are accounts for more than 90 % in the MSME category. The size clearly has an impact on accessing finance it indicates that the medium and small enterprises are easily accessing finance from the institutions as compare to micro enterprises. It can be suggested that the financial institutions are needed to focus on the majority group for the survival of the micro category enterprises

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