UNDERSTANDING SME FINANCING DECISIONS: A CONCEPTUAL FRAMEWORK OF DRIVERS AND BARRIERS IN EMERGING ECONOMIES

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Abstract. Small and Medium-Sized Enterprises (SMEs) play a vital role in economic development through their contributions to employment generation, entrepreneurship development, innovation, and national productivity. Despite their economic significance, access to external financing remains one of the most persistent challenges facing SMEs, particularly in emerging economies. Financing constraints often limit business expansion, technological adoption, and long-term competitiveness, thereby reducing the potential contribution of SMEs to economic growth. This paper aims to develop a conceptual framework that explains the drivers and barriers influencing SME financing decisions in emerging economies. Using a conceptual review approach, the study synthesises evidence from existing literature on SME financing behaviour and examines the factors that encourage or discourage entrepreneurs from seeking external financing. The findings reveal that financing decisions are influenced by a combination of entrepreneur-related factors, firm-specific characteristics, banking relationships, and macroeconomic conditions. Key drivers include financial literacy, educational attainment, business experience, profitability, stable cash flow, growth opportunities, strong banking relationships, government support programmes, and favourable economic conditions. Conversely, major barriers include inadequate financial knowledge, weak financial performance, collateral constraints, information asymmetry, limited financing availability, procedural complexity, financing costs, and perceived financial risk. The study further demonstrates that many drivers and barriers represent opposing manifestations of the same underlying determinants, suggesting that SME financing decisions are shaped by the dynamic interaction between enabling and constraining factors. Based on these findings, the paper proposes an Integrated Conceptual Framework of SME Financing Decisions that consolidates the principal determinants identified in the literature. The framework contributes to a more comprehensive understanding of SME financing behaviour and offers practical insights for policymakers, financial institutions, and entrepreneurs seeking to improve financing accessibility and promote sustainable SME growth in emerging economies.
Keywords: *Small and Medium-Sized Enterprises (SMEs), financing decisions, financing barriers, financing drivers, financial literacy, emerging economies*

Introduction

Many agree that SMEs are crucial to the growth of economies everywhere, developed and developing. SMEs produce jobs, foster entrepreneurship, generate new ideas, and reduce poverty, making them a key aspect of sustainable and equitable growth plans (Adam, 2024). Small and medium-sized businesses (SMEs) enhance local economies, make markets more competitive, and create well-paying jobs for social mobility. Most Malaysian firms are SMEs. SME Corporation Malaysia (2018) reports that 98.5% of Malaysian enterprises are small and medium-sized. It illustrates their

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importance to the nation's economy. Small and medium-sized firms (SMEs) have always contributed to Malaysia's economic growth in sectors including technology, job creation, and social and economic improvement, according to Muda and Musman (2022). The SME Corporation Malaysia defines SMEs in Malaysia by their annual revenue and number of full-time employees. Manufacturing SMEs are currently defined as those with fewer than 200 full-time employees or RM50 million in annual revenue. SMEs don't make more than RM20 million or employ more than 75 full-time workers in services and other industries (Muda and Musman, 2022; SME Corporation Malaysia, 2018). The economy has relied more on Malaysian SMEs in the past decade. According to the National Entrepreneur and MSME Development Council (NESDC, 2025), Malaysian MSMEs contributed 39.5% of GDP worth RM652.4 billion in 2024. This achievement illustrates that small and medium-sized firms are increasingly crucial to economic growth and national wealth. Additionally, SMEs are still a good source of employment. They generate two-thirds of Malaysia's jobs in numerous sectors (SME Corporation Malaysia, 2018). Despite their importance, small and medium-sized enterprises face many obstacles to growth. Access to outside capital remains a major barrier to corporate growth, innovation, productivity, and longevity (Adam, 2024; Erdogan, 2018). Policymakers, financial institutions, and entrepreneurs who wish to strengthen the SME ecosystem must understand how small businesses choose loans.

Financing challenges among SMEs

Financial access has long been a major obstacle to SME development worldwide. SMEs boost economic growth and employment, but many struggle to get financing from established banking institutions (Adam, 2024). Inability to access external capital limits firm expansion, technical adoption, product innovation, and market diversity, restricting SMEs' economic development impact. One of the biggest issues is the credit gap, or finance gap. Despite having attractive business opportunities and growth potential, financially viable SMEs cannot secure sufficient finance. Information asymmetry between lenders and borrowers is a serious issue. Due to limited financial information, accounting records, and business documentation, financial institutions often struggle to assess SMEs' creditworthiness (Erdogan, 2018; Jenkins and Hossain, 2017). Thus, lenders view SMEs as high-risk borrowers and impose tougher financing conditions. Another issue is SME underfinancing. Due to difficulties getting external financing, many entrepreneurs use internal capital. Internal financing may support daily operations, but overreliance on it may limit firm growth and strategic expenditures. Inadequate financing has been shown to hinder SME survival, growth, and competitiveness (Adam, 2024).

Collateral restrictions also limit borrowing options. Financial organizations use collateral to reduce lending risk. Many SMEs have few assets to pledge as security, decreasing their eligibility for formal funding (Erdogan, 2018). Younger firms and micro-enterprises without enough company assets or credit histories face this difficulty. In addition to structural constraints, psychological considerations increasingly affect funding decisions. According to recent research, entrepreneurs' financial risk perceptions strongly influence their desire to seek external finance. Even when capital is available, entrepreneurs may be deterred by payback commitments, debt, financial uncertainty, and business failure (Adam, 2024). Demand-side obstacles affect financing behavior yet are typically disregarded. Macroeconomic variables also affect finance accessibility. Financial institutions' desire and ability to lend to SMEs depends on economic development, price stability, banking sector competitiveness, and government borrowing policies (Jenkins and Hossain, 2017). Entrepreneurs, firms, financial institutions, and the wider economic environment interact to influence SME funding decisions. These persistent issues demonstrate the complexity of SME funding decisions and show that no single factor may explain them. Instead, various internal and external forces influence finance decisions, requiring a more thorough conceptual understanding of the factors that attract or discourage SMEs from obtaining external financing.

Purpose of the study

SMEs are becoming increasingly important and suffer chronic financing issues. This study seeks to build a conceptual framework that explains the factors and impediments affecting SME financing decisions in emerging economies. The study aims to synthesise empirical evidence and identify the main characteristics that encourage or deter SME owners from seeking external business financing. The study additionally categorizes these drivers into three major dimensions: entrepreneur-related, firm-specific, and external environmental. Through a comprehensive synthesis of prior literature, the paper explores how these variables affect SME funding behavior. Finally, this study suggests an integrated conceptual framework to help policymakers, financial institutions, and SME owners understand SME funding decisions. The proposed approach may help emerging economies build more effective finance policies and support systems for sustainable SME growth by recognizing the main drivers and barriers to funding.

The economic importance of SMEs in Malaysia and the conceptual underpinning of SME financing decisions

SMEs as a strategic pillar of the Malaysian economy

SMEs are vital to Malaysia's economy and drive national development. Beyond commercial operations, they create jobs, entrepreneurship, innovation, productivity, and regional economic growth. SME development has been prioritised by the Malaysian government through national policies, institutional support mechanisms, and entrepreneurship initiatives to boost business competitiveness and sustainability (SME Corporation Malaysia, 2018). In Malaysia's business ecosystem, SMEs dominate registered businesses. SMEs make up 98.5% of businesses in Malaysia, according to SME Corporation Malaysia (2018). This shows that most Malaysian enterprises are SMEs, making their success vital to the economy. Muda and Musman (2022) noted that SMEs foster economic diversification and entrepreneurial development by opening up business opportunities across industries and geographies. National development strategies continually emphasize entrepreneurship and SME growth as vital components of economic transformation. SME Corporation Malaysia, NESDC, financial institutions, and government agencies have supported SMEs in financing accessibility, digitalization, innovation, market expansion, and human capital development (NESDC, 2025). These policies aim to boost SME competitiveness and long-term economic growth.

SME GDP contribution

SME contribution to Malaysia's GDP has grown substantially in recent years, demonstrating their growing relevance as a source of economic output and value

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creation. In 2024, Malaysian MSMEs created RM652.4 billion in value-added and contributed 39.5% to GDP, according to NESDC (2025). In 2024, MSMEs grew 5.8%, outpacing GDP growth of 5.1% and non-MSME growth of 4.7% (NESDC, 2025). These numbers show that SMEs are now major contributors to national economic growth. They are contributing more to GDP due to productivity, market engagement, and business expansion across sectors. SME growth broadens the country's production base and reduces dependence on major corporations, strengthening the economy. The economic importance of SMEs in Malaysia matches global trends. SMEs are the backbone of the global economy. The NESDC (2025) estimated that 99.8% of EU and UK enterprises are SMEs, which boost GDP and employment. Such evidence emphasizes the need to boost SME development strategies and provide suitable company growth resources.

SME employment and entrepreneurship contribution

SMEs create jobs and stabilize the labor market in addition to contributing to GDP. SME Corporation Malaysia (2018) claimed that SMEs provide two-thirds of Malaysia's employment, making them one of the largest employers. Their labour-intensive nature allows them to absorb individuals from diverse educational, skill, and geographical backgrounds. SMEs' employment contribution is crucial to inclusive economic growth. SMEs offer chances to adolescents, women, rural areas, and first-time entrepreneurs who may struggle to get work in larger firms. Thus, SME growth boosts economic growth, social mobility, and poverty reduction. In addition to job generation, SMEs foster entrepreneurship. Many successful firms start as micro or tiny businesses before growing. SMEs foster entrepreneurship, innovation, and business leadership. Entrepreneurs develop management, financial, and market abilities that help build a dynamic and competitive economy (Muda and Musman, 2022).

Economic resilience and SMEs

Small and medium-sized enterprises matter beyond economic statistics. SMEs boost economic resilience by diversifying markets, strengthening domestic supply chains, and boosting local economies. Their spread across industries and regions spreads economic activity and decreases risk. SME Corporation Malaysia (2018) reported that other industries use 48.5% of SME output as intermediate inputs. This shows how interdependent SMEs are with the economy. SME assist industrial value chains and supply goods and services to larger enterprises, boosting economic productivity and stability. SME flexibility and agility are often greater than larger organizations. They make decisions and respond to market changes quickly because to their smaller organizational structures. Adaptability is crucial during economic uncertainty, technological upheaval, and changing consumer preferences. SME resilience during economic downturns emphasises their economic stabilizing role (NESDC, 2025).

The Value of SME Growth Financing

SMEs contribute significantly to the economy, yet they often face growth limits. Access to funding is one of the biggest impediments to business success. SMEs may expand, invest in technology, develop new products, enter new markets, and boost productivity with adequate financing. Conversely, limited financing might hamper firm growth, competitiveness, and innovation (Erdogan, 2018). The expanding role of SMEs

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in GDP and employment has increased the need to understand financing decisions. Since external finance drives business growth, knowing the characteristics that favor or discourage financing applications is crucial. Despite government support and financial sector changes, financing bottlenecks hinder SME development in emerging nations (Adam, 2024; Jenkins and Hossain, 2017). Therefore, understanding SME financing behavior requires a broader view than financial variables alone. Various factors related to entrepreneurs, firms, financial institutions, and the economy affect financing decisions. This observation forms the study's conceptual framework.

Concepts behind SME financing decisions

The literature reveals that SME funding decisions are multifaceted and influenced by internal and external factors. Financing behaviour is influenced by entrepreneurial traits, business situations, institutional linkages, and environmental factors (Adam, 2024; Erdogan, 2018). Entrepreneurs' funding decisions are influenced by financial literacy, company experience, education, and risk perceptions. Financially savvy entrepreneurs can better assess financing options, comprehend financing products, and handle borrowing obligations. However, entrepreneurs that perceive high financial risk may be unwilling to seek external finance notwithstanding funding opportunities (Adam, 2024). Firm-level finance decisions are influenced by profitability, cash flow stability, business age, asset ownership, and growth goals. Financial institutions may approve financing more easily for firms with better financial performance and operational stability (Erdogan, 2018). Institutional factors also matter. Financial institution-SME relationships affect lending, expenses, collateral requirements, and approval outcomes. Weak lender-borrower relationships may increase perceived lending risks and restrict financing options (Erdogan, 2018). Strong relationships may reduce information asymmetry and boost financing accessibility. Finally, environmental factors affect finance decisions. Financeability is affected by macroeconomic stability, inflation, government backing, banking sector competitiveness, and regulatory frameworks. Research shows that good economic times boost lending and SME funding (Jenkins and Hossain, 2017). This study posits that entrepreneur-related, firm-specific, and external environmental factors influence SME funding decisions based on the literature. All of these factors influence entrepreneurs' decisions to seek external financing. The conceptual underpinning presented in *Figure 1* provides the foundation for the subsequent sections of this paper. It highlights that SME financing decisions are not solely determined by financial considerations but are shaped by a combination of entrepreneurial, organisational, institutional, and environmental influences. Building upon this foundation, the following sections examine in greater detail the drivers that motivate SMEs to seek external financing and the barriers that discourage financing applications in emerging economies.

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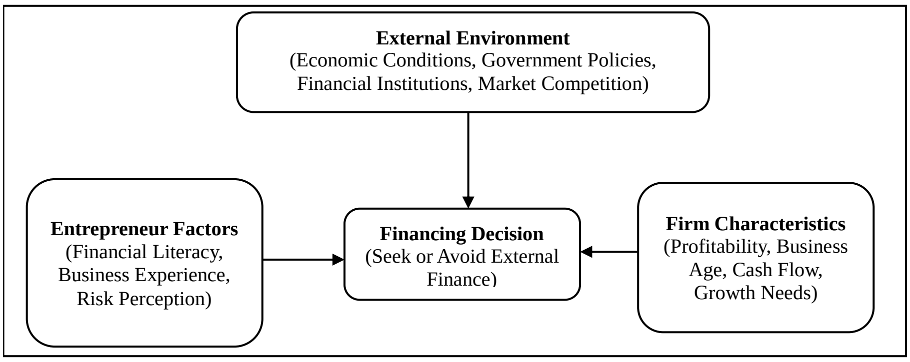

Figure 1. *Conceptual underpinning of SME financing decisions.*

Drivers of SME financing decisions

SME growth, sustainability, and competitiveness depend on financing. Financial resources allow organizations to expand, invest in technology, boost productivity, create new goods, and enter new markets. Thus, understanding what drives SME entrepreneurs to seek external finance is crucial to enhancing financing access and business growth. The literature shows that entrepreneur-related factors, firm-specific traits, institutional interactions, and external environmental conditions influence SME funding decisions. These factors influence entrepreneurs' finance perspectives and desire to seek external investment through diverse means. This section synthesizes the primary factors from prior studies and divides them into four categories: entrepreneur-related, firm-specific, banking relationship, and macroeconomic.

Entrepreneur-related drivers

One of the main factors influencing SME funding is financial literacy. Financially literate entrepreneurs comprehend financial products, financing costs, repayment requirements, and risk management. This understanding helps people make better financing decisions and gain confidence with financial institutions. Studies have indicated that financially educated entrepreneurs are more likely to use formal financing channels because they can better assess the costs and benefits of alternative options. Financial literacy eliminates knowledge barriers and improves entrepreneur-lender interactions, making funding easier (Rosyada et al., 2024). Stronger financial understanding helps entrepreneurs prepare financial statements, business strategies, and lender-required documentation. These skills boost the likelihood of financing approval and motivate entrepreneurs to seek external capital for expansion. The education and business experience of entrepreneurs also affect funding selections. Higher-educated entrepreneurs are more aware of financing opportunities and can evaluate complex financial information. Entrepreneurs with more experience understand finance and lender criteria. Business expertise can also help businesses manage debt and implement externally funded development initiatives. Thus, educated and experienced entrepreneurs are more likely to seek finance than less experienced ones. Strong growth entrepreneurs are more likely to seek external financing than survival or lifestyle entrepreneurs. Growth-oriented enterprises need finance to expand production, access new markets, adopt technology, or develop new goods. Internal funds may not be enough to support corporate expansion. Thus, external financing is crucial for long-term growth and competitive advantage.

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Firm-specific drivers

Financing decisions are heavily influenced by firm performance. Successful organizations have stronger financial positions, higher repayment capability, and greater reputation with financial institutions. Profitable enterprises are more likely to seek external finance and get it approved (Erdogan, 2018). Financial strength indicates firm viability and decreases lender default risk. This makes financing applications easier and improves formal credit access. Another aspect in funding selections is a company's age. Established companies have greater client bases, longer operating histories, and more detailed financial records. These traits reassure lenders that the firm can repay (Erdogan, 2018). Due to their short histories and poor performance, younger enterprises may have more funding issues. Thus, mature enterprises have broader funding options and are more likely to use external financing for expansion. Financing applications often stem from a need for capital. SMEs often need external funding to buy machinery, invest in technology, grow inventories, recruit more workers, or enter new markets. Capital needs rise with corporate expansion. Firms aiming to capitalize on growing prospects and retain competitive standing in their industries need external investment.

Banking relationship drivers

The quality of SMEs' financial institution connections greatly affects finance accessibility. Long-term connections allow lenders to learn about a firm's financial performance, management, and payback. These interactions diminish information asymmetry and boost lender confidence (Erdogan, 2018). Strong banking relationships may also enable customized funding, lower financing costs, and speedier approvals. Positive ties with banking institutions encourage SMEs to seek external financing. SME financing applications increase when financial institutions offer products that meet their operational needs, repayment capacities, and company goals. Diversifying finance items including working capital, equipment, trade, and specialized SME financing schemes makes external financing more appealing and encourages SME enterprises to participate.

Macroeconomic drivers

Macroeconomic variables affect financial demand and supply. SME investment, expansion, and finance increase with economic growth due to market opportunities. Improved economic outlook and lower lending risks make financial institutions more eager to issue credit (Jenkins and Hossain, 2017). Thus, good economic conditions boost financial demand and supply. Government actions boost SME finance. To minimize SME funding hurdles, financing programs, credit guarantee programmes, grants, and entrepreneurial initiatives have been created. Such programs lower lender risks and encourage entrepreneurs to seek formal finance. Government support often helps emerging nations enhance SME access to financial resources and foster entrepreneurial growth. The literature shows that numerous interconnected factors affect SME funding decisions. Financial literacy, education, and growth orientation interact with firm-specific characteristics like profitability, business age, and capital requirements. Positive banking ties and macroeconomic conditions increase these characteristics. *Figure 2* summarizes the literature's main SME financing drivers.

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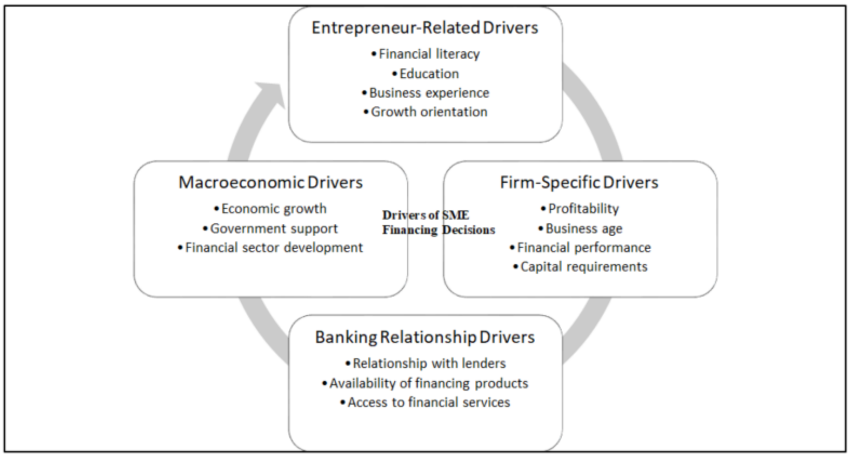

Figure 2. *Drivers of SME financing decisions.*

Barriers to SME financing decisions

Despite the necessity of external financing for business growth and sustainability, many SMEs still struggle to get funding. Although the factors in the previous section urge entrepreneurs to seek finance, many barriers limit financing access and impact financing decisions. Entrepreneurs, firms, financial institutions, and the economy can create these hurdles. Existing evidence reveals that finance limits remain a major concern for SMEs worldwide, especially in emerging economies. Business expansion, technical innovation, productivity improvements, and market development are typically limited by insufficient capital (Adam, 2024; Erdogan, 2018). Understanding the barriers that deter financing applications is crucial to creating successful financing regulations and support structures. Previous research have identified four main impediments to SME financing: financial limits, knowledge asymmetries, psychological barriers, and institutional barriers.

Financial constraints

One of the biggest SME funding obstacles is insufficient collateral. Lenders usually require collateral to protect against default. The early stages of firm development often leave SMEs with few fixed assets, making it difficult to meet lender collateral requirements (Erdogan, 2018). This difficulty is especially visible in micro-enterprises and startups. These companies may have good business strategies and development potential, but their failure to secure appropriate collateral generally disqualifies them for formal financing. Thus, many entrepreneurs abandon financing applications or use informal sources. Financial institutions evaluate firm performance before lending. Unstable cash flows, low profitability, and weak financial positions may make firms high-risk borrowers. SMEs with poor financial performance have more trouble getting finance than financially stable firms (Erdogan, 2018). Poor financial performance lowers funding approval rates and may deter firms from seeking financing owing to concerns about repayment. Many SME owners prefer internal funding over external. Self-financing may reduce debt, but overreliance on internal resources may limit firm growth. Studies have revealed that entrepreneurs delay investment decisions because internal funds are insufficient for larger initiatives (Adam, 2024). This propensity causes SMEs to underfinance and may limit long-term growth.

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Information asymmetry

Information asymmetry occurs when lenders lack sufficient data to assess borrowers' financial health and repayment capacity. One of the biggest impediments to SME funding is this issue (Erdogan, 2018; Jenkins and Hossain, 2017). SME accounting systems and financial records are often lacking. Thus, financial institutions struggle to evaluate firm performance, profitability, and prospects. Insufficient financial data creates lender uncertainty and may result in loan refusal. SMEs often lack business planning, cash flow estimates, market analysis, and operational reports to accompany their financial records. Financing assessments sometimes demand these documents to prove business viability. Financial institutions may misjudge business risks and financing needs without proper paperwork. Thus, finance applications may be delayed, scrutinized, or denied. The information imbalance impacts enterprises too. SME owners sometimes lack knowledge about financing schemes, eligibility conditions, application processes, and products. Lack of awareness may discourage financing applications and restrict financing facility use. Rural micro-enterprises, which have less access to financial information and advisory services, are especially affected.

Psychological barriers

Recent research shows that psychological aspects influence SME financing. Among these variables, perceived financial risk influences financing decisions (Adam, 2024). External financing is associated with financial commitments and uncertainties for many entrepreneurs. Business failure, repayment issues, fluctuating income, and economic uncertainty may deter entrepreneurs from seeking financing. Entrepreneurs that perceive substantial financial risk may avoid borrowing even when finance is readily available. Debt phobia is another psychological barrier. SME owners sometimes worry about long-term payments and financial turmoil. Economic instability and market volatility may exacerbate these anxieties. Even though external finance could boost business growth and profitability, some entrepreneurs limit firm expansion to avoid taking on more debt. Some entrepreneurs view external financing as a threat to business autonomy and decision-making. This is especially important when funding arrangements include restrictive covenants, monitoring requirements, or managerial decision-making constraints. Thus, some SME owners prefer slower growth financed internally over external funding that could compromise firm control and flexibility.

Institutional barriers

SME entrepreneurs complain about lengthy and complicated application processes. Many financing applications require lengthy documentation, verification, and administrative processes. These constraints may deter entrepreneurs from seeking financing, especially if approval is uncertain. Financing applications can be difficult for smaller enterprises with limited administrative and human resources. Financial organizations have tight lending standards to reduce credit risk. Collateral, minimum operational history, profitability thresholds, and detailed financial reporting standards may be required. While risk management is important, such measures may eliminate viable SMEs with development potential but not enough resources to meet all loan requirements (Erdogan, 2018). Finance costs may deter SMEs from obtaining external investment. Interest rates, service fees, legal fees, processing costs, and compliance costs raise borrowing costs. Thus, entrepreneurs may conclude that financing benefits

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do not justify the financial obligations. This issue is especially important for smaller companies with narrow profit margins and low cash reserves.

Environmental barriers

Macroeconomic volatility hurts financial supply and demand. In uncertain economic times, banks lend more conservatively and examine risk more carefully. Due to market uncertainty, entrepreneurs may delay investment decisions (Jenkins and Hossain, 2017). This twofold effect affects SME funding activity and may worsen the gap. High inflation, market volatility, and unpredictable economic settings may discourage entrepreneurs from taking on more debt. Rising operational costs and unclear income estimates make funding commitments riskier, deterring applications. Environmental concerns present issues beyond company and institutional levels. The literature shows that SME funding is hindered by several linked factors. Financial restrictions like insufficient collateral and poor performance interact with information asymmetry, psychological issues, institutional limits, and environmental circumstances. These barriers make capital harder to get and deter entrepreneurs from seeking it. *Figure 3* summarizes the literature's main SME funding constraints. The drivers discussed and the barriers examined in this section collectively demonstrate that SME financing decisions are shaped by a complex interaction of encouraging and constraining factors. The following section synthesises these findings through a comparative analysis and develops a comprehensive conceptual framework for understanding SME financing decisions in emerging economies.

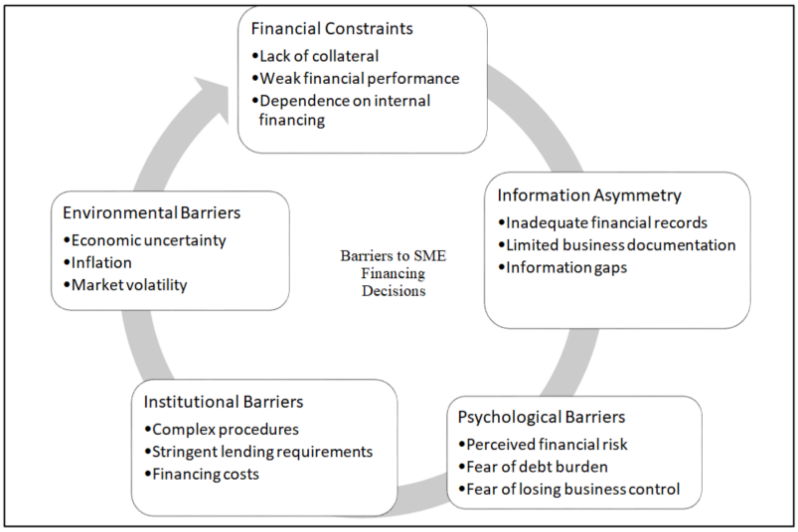

Figure 3. *Barriers to SME financing decisions.*

Results and Discussion

Towards an integrated understanding of SME financing decisions

The preceding sections have demonstrated that SME financing decisions are influenced by a complex interaction of motivating and constraining factors. While certain factors encourage entrepreneurs to seek external financing, others simultaneously discourage financing applications or reduce financing accessibility. Consequently, SME financing behaviour cannot be adequately explained through a

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single perspective. Rather, financing decisions emerge from the interaction of entrepreneur-related characteristics, firm-specific conditions, institutional arrangements, and environmental influences. This section synthesises the findings from the reviewed literature and develops an integrated understanding of SME financing decisions. Specifically, it examines the interaction between drivers and barriers, identifies strategic implications for stakeholders, and proposes a conceptual framework that consolidates the major determinants influencing SME financing behaviour in emerging economies.

Comparative analysis of drivers and barriers

The literature reveals that many drivers and barriers represent opposite manifestations of the same underlying determinants. Factors that facilitate financing accessibility may become barriers when they are absent or inadequately developed. This observation suggests that SME financing decisions are best understood as the outcome of a dynamic balance between enabling and constraining influences. For example, financial literacy has consistently been identified as a key driver of financing decisions. Entrepreneurs who possess greater financial knowledge are more capable of evaluating financing opportunities, understanding financing requirements, and managing repayment obligations. However, when financial literacy is lacking, entrepreneurs may experience uncertainty regarding financing products and procedures, thereby reducing their willingness to seek external financing (Rosyada et al., 2024). Similarly, strong business performance encourages financing applications by increasing lender confidence and improving repayment capacity. Conversely, weak financial performance often results in financing rejection and discourages entrepreneurs from pursuing external funding (Erdogan, 2018). The same pattern can be observed in banking relationships, where strong lender-borrower relationships facilitate financing accessibility, while information asymmetry and limited business information increase financing difficulties (Erdogan, 2018; Jenkins and Hossain, 2017). At the psychological level, entrepreneurs' perceptions of risk significantly influence financing behaviour. Low levels of perceived risk may encourage financing applications, whereas high levels of perceived financial uncertainty, debt burden concerns, and fear of business failure often discourage financing participation (Adam, 2024). The comparison demonstrates that financing decisions involve continuous evaluation by entrepreneurs regarding both opportunities and risks. Consequently, financing accessibility cannot be improved solely through the expansion of financing products. Efforts must also address informational, psychological, institutional, and environmental barriers that discourage financing participation (*Table 1*).

***Table 1**. Comparative analysis of drivers and barriers influencing SME financing decisions.*

Dimension	Drivers of financing decisions	Corresponding barriers
Financial Capability	Financial literacy	Limited financial knowledge
Human Capital	Educational attainment	Limited managerial capability
Entrepreneurial Experience	Business experience	Lack of entrepreneurial experience
Financial Performance	Profitability	Weak financial performance
Financial Stability	Stable cash flow	Financial instability
Business Characteristics	Business maturity	Limited operating history
Business Growth	Growth opportunities	Resource limitations
Banking Relationships	Strong banking relationships	Information asymmetry
Financing Accessibility	Accessible financing products	Limited financing availability
Institutional Support	Government support programmes	Regulatory and procedural constraints
Economic Environment	Positive economic conditions	Economic uncertainty

Source: Adam (2024), Rosyada et al. (2024), Erdogan (2018), and Jenkins and Hossain (2017).

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SWOT analysis of SME financing decisions

The findings may also be interpreted through a strategic SWOT framework, which highlights the internal and external factors influencing SME financing decisions. Several strengths support SME financing participation. These include increasing levels of entrepreneurship, growing awareness of financing opportunities, government commitment to SME development, and the availability of various financing schemes designed specifically for SMEs. Improvements in digital banking and financial technology have also expanded access to financing information and financial services. Despite these strengths, SMEs continue to exhibit several weaknesses that limit financing accessibility. Common weaknesses include inadequate financial literacy, weak financial management practices, insufficient collateral, limited accounting records, and dependence on internally generated funds. These weaknesses contribute to information asymmetry and reduce lender confidence. The external environment presents numerous opportunities for improving SME financing accessibility. Government support programmes, digital financial services, alternative financing mechanisms, credit guarantee schemes, and financial technology innovations provide new avenues for financing acquisition. Economic growth and increasing demand for entrepreneurship further create favourable conditions for SME expansion. External threats continue to pose challenges for SME financing decisions. These include economic uncertainty, inflationary pressures, changing regulatory requirements, market volatility, and increasingly competitive business environments. Such factors may reduce lender willingness to extend credit and simultaneously increase entrepreneurs' perceptions of financing risk. The SWOT analysis demonstrates that improving SME financing accessibility requires simultaneous efforts to strengthen internal capabilities while addressing external constraints (*Figure 4*).

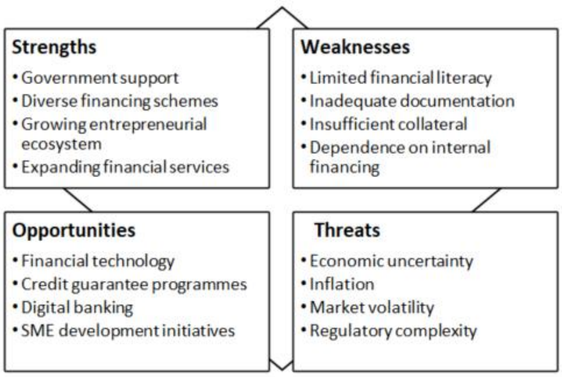

Figure 4. *SWOT analysis of SME financing decisions.*

Development of an integrated conceptual framework

The review of existing literature indicates that previous studies have often focused on isolated determinants of financing behaviour. Some studies have concentrated on firm-specific characteristics, while others have examined entrepreneur-related attributes, banking relationships, or macroeconomic influences independently. However, SME financing decisions are inherently multidimensional and require a more integrated perspective. Based on the synthesis of the literature, this study proposes an Integrated Conceptual Framework of SME Financing Decisions. The framework suggests that

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financing decisions are influenced by the interaction of three primary dimensions: (1) Entrepreneur-related factors; (2) Firm-specific characteristics; and (3) External environmental factors. These dimensions collectively influence financing decisions through both enabling and constraining mechanisms. Entrepreneur-related factors include financial literacy, educational background, business experience, growth orientation, and risk perception. Firm-specific characteristics comprise profitability, cash flow stability, business age, asset ownership, and financing needs. External environmental factors encompass banking relationships, financing availability, government support, macroeconomic conditions, and regulatory environments. At the same time, barriers such as information asymmetry, collateral constraints, financing costs, procedural complexity, and perceived financial risk operate as moderating influences that may weaken or obstruct financing intentions. Consequently, financing decisions emerge from the balance between drivers and barriers rather than from any single determinant. Entrepreneurs are more likely to pursue external financing when perceived benefits exceed perceived risks and when enabling conditions outweigh financing constraints.

Proposed integrated conceptual framework of SME financing decisions

Based on the findings of this review, *Figure 5* presents the proposed Integrated Conceptual Framework of SME Financing Decisions. The framework integrates the principal findings from previous studies and provides a comprehensive explanation of SME financing behaviour in emerging economies. It demonstrates that financing decisions are shaped not only by business needs and financing opportunities but also by entrepreneurs' perceptions, institutional relationships, and environmental conditions.

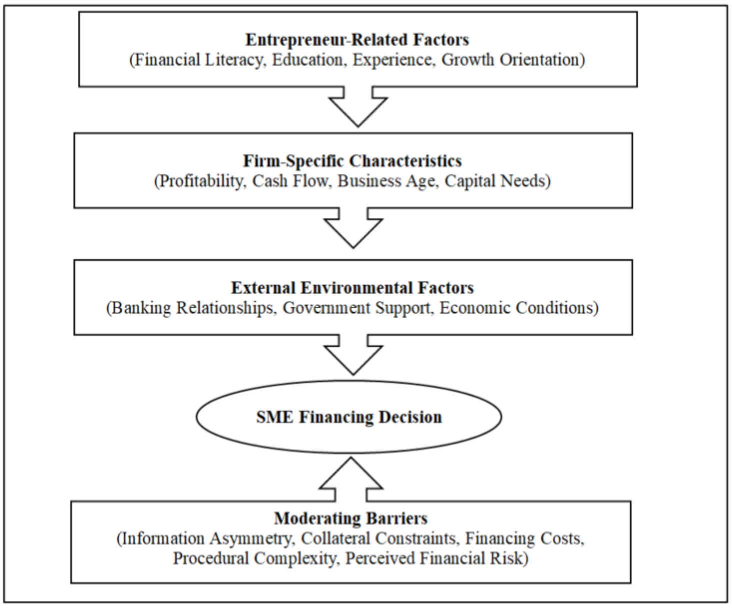

Figure 5. *Integrated conceptual framework of SME financing decisions.*

Implications for policy and practice

For policymakers, efforts should focus on strengthening financial literacy programmes, expanding credit guarantee schemes, simplifying financing procedures, and promoting financial inclusion initiatives. Such measures can help reduce financing

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barriers and improve SME participation in formal financing markets. For financial institutions, reducing information asymmetry through relationship-based lending approaches and developing financing products tailored to SME needs may enhance financing accessibility. Simplified application procedures and increased advisory support may further encourage financing participation. For SME entrepreneurs, improving financial management practices, maintaining comprehensive business records, and enhancing financial literacy are essential for increasing financing readiness and strengthening relationships with financial institutions. Overall, addressing both supply-side and demand-side barriers is essential for narrowing the financing gap and supporting sustainable SME growth in emerging economies.

Conclusion

Small and Medium-Sized Enterprises (SMEs) remain a vital component of economic development in both developed and emerging economies. In Malaysia, SMEs contribute significantly to national output, employment generation, entrepreneurship development, and economic resilience. Their growing contribution to Gross Domestic Product (GDP) and their dominant presence within the business landscape underscore their strategic importance in supporting sustainable and inclusive economic growth (NESDC, 2025; SME Corporation Malaysia, 2018). Despite their economic significance, access to financing continues to represent one of the most critical challenges confronting SMEs. Financing is essential for supporting business expansion, technological adoption, innovation, market penetration, and long-term competitiveness. However, many SMEs continue to experience difficulties in obtaining adequate financial resources due to a combination of firm-level, institutional, psychological, and environmental constraints. This paper sought to develop a conceptual understanding of SME financing decisions by synthesising the existing literature on the drivers and barriers influencing financing behaviour. The findings demonstrate that financing decisions are not determined by a single factor but rather emerge from the interaction of multiple influences. The review identified entrepreneur-related factors, firm-specific characteristics, banking relationships, and macroeconomic conditions as the principal drivers encouraging SMEs to seek external financing. Among the most influential drivers are financial literacy, business experience, profitability, operational stability, access to financing products, government support, and favourable economic conditions. Conversely, the study identified several barriers that discourage financing participation. These include collateral constraints, weak financial performance, inadequate documentation, information asymmetry, perceived financial risk, financing costs, procedural complexity, and economic uncertainty. The findings further suggest that many drivers and barriers represent opposing manifestations of the same underlying determinants. For example, financial literacy facilitates financing participation, whereas limited financial knowledge inhibits financing applications. Similarly, strong banking relationships improve financing accessibility, while information asymmetry reduces financing opportunities (Sulistianingsih et al., 2023; Raharja et al., 2022; Fouejieu et al., 2020).

One of the primary contributions of this study is the development of an Integrated Conceptual Framework of SME Financing Decisions. The proposed framework consolidates the major determinants identified in previous studies and provides a holistic explanation of financing behaviour among SMEs in emerging economies. Unlike studies that focus on isolated variables, the framework recognises that financing

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decisions result from the interaction of entrepreneur-related factors, firm-specific characteristics, and external environmental influences, while simultaneously accounting for the moderating effects of financing barriers. The findings highlight that improving SME financing accessibility requires a comprehensive and coordinated approach. Expanding financing supply alone may be insufficient if entrepreneurs continue to face informational, psychological, and institutional constraints. Effective financing policies must therefore address both the supply-side and demand-side dimensions of SME financing in order to reduce financing gaps and promote sustainable business growth. Several limitations should be acknowledged when interpreting the findings of this study. First, the paper adopts a conceptual and literature-based approach rather than an empirical research design. Consequently, the proposed framework has not yet been statistically validated using primary data collected from SME entrepreneurs. Second, the reviewed literature originates from different countries and institutional contexts. Although the synthesis provides valuable insights into SME financing behaviour in emerging economies, variations in regulatory frameworks, financial systems, and economic environments may influence the applicability of certain findings across different jurisdictions. Third, the study focuses primarily on conventional financing determinants and does not specifically examine differences between conventional and Islamic financing mechanisms. Given the increasing importance of Islamic finance in many emerging economies, further investigation in this area may provide additional insights into SME financing behaviour.

First, future studies may empirically test the proposed framework using quantitative research methods. Structural Equation Modelling (SEM), Partial Least Squares Structural Equation Modelling (PLS-SEM), or other multivariate techniques may be employed to examine the relationships among the identified drivers, barriers, and financing decisions. Second, future research may investigate the relative importance of individual determinants. While this study identifies multiple drivers and barriers, the strength of influence associated with each factor remains unclear and may vary across industries, business sizes, and stages of business development. Third, comparative studies involving different countries or regions may provide a deeper understanding of how institutional and economic contexts influence SME financing behaviour. Such studies would contribute to the development of more context-specific financing policies and support mechanisms. Fourth, future research may explore sector-specific financing challenges. Financing determinants may differ substantially between manufacturing, services, agriculture, technology-based enterprises, and digital businesses. Understanding these differences may improve the effectiveness of financing interventions targeted at specific industries. Finally, future studies should examine the growing role of financial technology, digital banking, crowdfunding, peer-to-peer financing, and alternative financing mechanisms in shaping SME financing decisions. As financial ecosystems continue to evolve, these emerging financing channels may significantly alter traditional financing patterns and create new opportunities for SME growth. In conclusion, understanding the factors that drive and hinder SME financing decisions remains essential for strengthening entrepreneurship, enhancing financial inclusion, and promoting sustainable economic development. By integrating the major determinants of financing behaviour into a comprehensive conceptual framework, this study contributes to a deeper understanding of SME financing decisions and provides a foundation for future academic inquiry and policy development in emerging economies.

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Conflict of interest

The authors declare that this research was conducted independently. Although the study was funded by Co-opbank Pertama (CBP), the funding body had no role in the study design, data collection, data analysis, interpretation of the findings, manuscript preparation or the decision to submit the manuscript for publication. The authors declare that they have no competing financial or non-financial interests.

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