Chapter 3

Literature Review
3.1 Meaning of Literature Review

A literature review is a body of text that aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. Literature reviews are secondary sources, and as such, do not report any new or original experimental work. Also, a literature review can be interpreted as a review of an abstract accomplishment. The main goal of literature review is to situate the current study within the body of literature and to provide context for the particular reader. [1]

3.2 Importance of Literature Review

A crucial element of all research degree is the review of relevant literature. Omission of this chapter represents a void or absence of a major element in research (Afolabi 1992). According to Bourner (1996) there are good reasons for spending time and effort on a review of the literature before embarking on a research project.

These reasons (importance) are as follows:

- To identify gaps in the literature
- To avoid reinventing the wheel (at the very least this will save time and it can stop you from making the same mistakes as others)
- To carry on from where others have already reached (reviewing the field allows you to build on the platform of existing knowledge and ideas)
- To identify other people working in the same fields (a researcher network is a valuable resource)
- To increase your breadth of knowledge of your subject area
- To identify seminal works in your area
- To provide the intellectual context for your own work, enabling you to position your project relative to other work
• To identify opposing views
• To put your work into perspective
• To demonstrate that you can access previous work in an area
• To identify information and ideas that may be relevant to your project
• To identify methods that could be relevant to your project

3.3 Process of Literature Review

Figure 3.1: Process of Literature Review

3.3.1 Select a Topic
• Read your assignment carefully
• Talk over your ideas with someone
• Scan academic journals
• Read professional blogs
• Look for research agendas on professional association websites
• Focus your topic

3.3.2 Search the Literature

• Types of sources that can be included:
  o Books, Articles, Abstracts, Reviews, Dissertations, Research Reports, Websites, Films etc
• Identify the most important / useful databases for your discipline
• Develop an understanding of the academic terminology for your field of study
• Determine time frame
• Look for empirical and theoretical literature
• Include primary and secondary sources
• Identify classic or seminal studies
• Identify important authors who are contributing to the development of your topic
• Use a system to organize and manage material

3.3.3 Develop your Argument

• This step is a planning step - you will develop these arguments in the next two steps: surveying and criticizing the literature
• “You must build a case for what is known about your topic and determine how this knowledge addresses the research question”.
• Develop two types of arguments:
  o Argument of discovery - develop findings that present the current state of knowledge about your research interest
• Argument of advocacy - analyze and critique the knowledge gained from developing the argument of discovery to answer the research question
  • Analyze the claims within the literature to develop your arguments
  • Claim – the argument’s declaration or assertion
  • Evidence – data that define and support the claim
  • Types of claims
    o Facts
    o Worth
    o Policy
    o Concept
    o Interpretation
  • You must present all slides of a question; your argument must be balanced

3.3.4 Survey and Critique the Literature
  • Develops the discovery argument and the advocacy argument
  • Answers the questions:
    o What do we know about the subject of our study?
    o Based on what we know what conclusions can we draw about the research questions?
  • Critically assess each piece of literature you have gathered to analyze its content
  • You need to be:
    o Methodical
    o Systematic
    o Rigorous
    o Consistent
3.3.5 Write the Review

- Use the results of your analysis and critique of the literature to develop the organization of your review
- Develop a detailed outline
  - Identify the themes and/or patterns that have emerged
  - Translate these into headings and subheadings
  - Be sure your outline is logical
- Be selective with the literature you include
- Synthesis synthesis synthesis!
- Reorganize and reassemble all of the separate pieces and details to create an integrated whole
- Make connections between and among ideas and concepts
- Never present a chain of isolated summaries of previous studies
- The synthesis needs to build a knowledge base AND extend new lines of thinking
- Remember – this is your entry into the conversation
- Writing a literature review is a creative activity

The core part of this chapter, that relevant studies are summarized subsequently.

3.4 Literature Review

1. Pratap Subramanyam (2009) in his book named "Investment Banking – An Odyssey in High Finance" stated that Investment Banking has grown to encompass an important place in the field of financial services for India in the liberalized era. It states with conviction that this field of financial services can only become more important in the years to come. The increasing sophistication and deepening of the financial markets on one hand, and the fast transforming corporate landscape from a protective background to a globalised market place on the other, would lead to more complex corporate
transactions and therefore, the role of investment bankers as transaction experts and advisers would become indispensable. There is utmost need at this point of time for organized learning of this field of financial activity through a systematic approach based on conceptual clarity. The pace at which Indian corporate landscape is transforming leaves no doubt that investment banking would grow into a larger service area in future. Indian cooperates are steadily grappling with the globalised realities and coming out successful in various sectors. Cross border capital flows are becoming an imperative. Capital raising, consolidation and restructuring are the order of the day. The law makers and regulators are constantly engaged in providing the necessary bandwidth by enactment and amendment of corporate and securities laws and refining the statutory framework through periodical changes in guidelines, rules and regulations.

2. Businessworld (2011-12) in the book named “The SME Whitebook 2011-2012” stated that the success, of and indeed the survival, of a small and medium business is a David vs. Golaith story. Small businesses have it tough. Small and medium enterprises (SMEs) have limited resources and access to capital. They are unable to leverage economies of scale, tap into efficient scales channels, or invest in Research and Development. Attracting talent is difficult, and building a brand even more so. With weak pricing power, high costs, and sales inefficiencies, the fact that SMEs survive is amazing; the fact that they often thrive is testament to the power of entrepreneurial ingenuity. The greatest asset of any business is the mind, the passion and the hunger of an entrepreneur. The ingenuity of an entrepreneur will create new products, open new markets and sometimes even break down industry structures. The transformation of the Indian economy in the last two decades has been fuelled largely by entrepreneurs who started out as small businesses. They were SMEs for a long time before their success led them to outgrow the tag. The opportunity for SMEs in India is bigger than ever. Technology and Internet have already broken down information barriers. The Internet allows SMEs to
collaborate across organizations and helps reduce the disadvantages of scale, while technology helps them to amplify their flexibility. Their market reach has extended from local customers to domestic and international markets. Technology is helping businesses achieve their lifecycle, from conceptualization to execution of scaling. The real story ahead, lies in the tier-11 and rural markets. The Indian consumer has rising awareness and purchasing power, needs specific solutions and has the scale to create successful business overnight. The challenge is market reach. I am seeing remarkable business models creating products and market networks in urban and rural markets. The sheer size of these markets can potentially create companies larger than Google. Lower price points are leading to the evolvement of innovative processes, creating very capital and cost-efficient products and market networks. These innovations will transform sectors such as materials and design, in addition to technology, retail and healthcare.

3. Europe Council (2006) in the study "Think Small First" stated that SMEs are vital to promoting economic growth, competitiveness, entrepreneurship and innovation, and to create new jobs. Ensuring adequate access to finance so that SMEs can grow and achieve their full potential. Moreover, the conclusions of the Council emphasized that 'fully integrated financial markets and sufficient access to finance are crucial for the growth of small and medium sized enterprises'. The current crisis in the financial sector around the world has made such access even more critical.

4. Organization for Economic Co-operation and Development (OECD) research (2006) suggests that securing suitable financing remains an obstacle, especially for the growth of innovative SMEs, a problem known as the 'SME financing gap'. While many SMEs are reliant upon internal sources of financing, including cash-flow, to fund investment in their development and growth, particularly at the start-up and early growth stage, they will necessarily have to consider external financing sources as they progress
through the development phases of the SME lifecycle. Addressing the "financing gap" is increasingly important in the context of a fast changing, knowledge-based economy in which innovative SMEs with high growth potential are key in raising productivity and in maintaining competitiveness. The ability of small firms - particularly fast-growth 'gazelles' - to exploit investment opportunities is dependent on the extent to which low-cost external sources of financing are available.

5. In a Consultant's Report on Business Support in FCT Number 107, by David Irwin for DFID (March 2004), it was stated that "Governments all around the world now recognize the important contribution that small firms make to the economy and many governments have established extensive support arrangement to help people start and grow their businesses. The dearth of venture capital financing has also aggravated the situation as venture capital provides long-term patient capital, which allows a small business to grow, as is the case in Ghana and some developed economies.

6. According to Rwigema and Karungu (1999), in the study "Small and Medium Enterprises (SME) Risk Management Practices" stated that SMEs are dominant in numbers in most economies. In First World countries like the United States of America and the United Kingdom, small enterprises play an important role in the economy, accounting for an estimated one third of industrial employment and a lower percentage of output. In Third World countries where SMEs dominate economically active enterprises, the SMEs prosperity is considered far more important than in First World countries.

7. Berger and Udell, (2001); Reynolds and Lancaster, (2006); Bank of England, (2001) in the study "Small and Medium Enterprises (SME) Risk Management Practices" stated that a high percentage of small organizations fail in the first five years of trading, often as a result of over trading and financial strain. Access to finance has therefore featured prominently in a number of studies
as a constraint on SME development. A lack of credit is a major constrained experienced by emerging SME entrepreneurs, who is depended on personal savings or loans from relatives and friends, as the source of their start-up capital. Finance, skills, business training and less rigid regulations are the key elements to promote entrepreneurship, to enhance the enterprise environment, to improve competitiveness and capacity in the SME enterprise.

8. Gadenne and Sharma (2009) in the study "Quality Management in Small and medium enterprises: Experiences from a developing country" stated that in the manufacturing sector, SMEs act as specialist suppliers of components, parts and sub-assemblies to larger companies; because these items can be produced at a cheaper price compared to the price large companies must pay for in-house production of the same components. Majority of SMEs have simple systems and procedures, which allows flexibility, immediate feedback, short decision-making chain, better understanding and quicker response to customer needs than larger organizations. The success of SMEs basically depends on the figure of the entrepreneur-owner, who is personally responsible for managing the activities of the company. SMEs are flexible and can adapt quickly to changing market conditions, generate employment, and make a significant contribution to exports and trade. Generally, in SMEs, decision making processes are not very formalized, rather are very centralized and based on the experience, personal knowledge and intuition of the key people.

9. Thassanabanjong (2009) in the study "Training in SME" stated that SMEs are found in every sector of the economy and play a vital role. They are crucial for sustained, long-term growth, dynamism and employment. SMEs are regarded as one of the main driving forces of economic development, stimulating private ownership and entrepreneurial skills. For developing economies SMEs often offer the only realistic prospects for increases in employment and value added services or products. They generally employ
the largest percentage of the workforce and are responsible for income generation opportunities. Small and medium enterprises are critical to the economies of all countries and especially to the developing ones as they were the engine of growth for any economy.

10. McAdam and Kelly (2002) in the study "Benchmarking in Small and Medium Enterprises" stated that although SMEs are playing an increasingly more important role, only a few have achieved high growth. The main barriers to growth in the SME sector are niche players, management resources, market intelligence and long-term strategy. Moreover, SMEs face the resource constraints in terms of finance, time, people and a general lack of knowledge and expertise relative to current improvement methodologies and frameworks. Due to a lack of human and financial resources that keeps SMEs from adopting new technological solutions and innovative managerial practices, they could not improve their overall performances. Managers at small businesses face real competitive challenges. Most small ventures lack the brand recognition, channel power, market reach, and resources that sustain larger rivals. Lacking these weapons, small-business managers rely on agility, hard work, and passion to gain market acceptance. These enterprises often operate under the constraints of scarce resources, a flat organizational structure, a lack of technical expertise, a paucity of innovation, reduced intellectual capital and the like.

11. Rankhumise (2009); Netswera and Ladzani (2009) in the study "Perceptions of Small, Medium, Micro Enterprise Entrepreneur regarding Factors Contributing to Failure" stated that many reasons are given for business failure, inter alia with, lack of managerial planning skills, ineffective working capital management, inability to manage the competitive environment and growth over-expansion. It refers to a study conducted in the United States among small businesses to determine failure rate. It was found that 23.7% of new businesses dissolved within two years of being started, while 51.7% of
businesses dissolved within four years and 62.7% within six years. The major reasons were found to be the following: 47.5% failed for economic reasons, 38.4% failed as a result of financial trouble (including excessive debt, extremely high operating expenses, and insufficient working capital), 7.1% failed because of neglect by the owner (including poor work habits, business conflicts and family problems), 3.4% failed because of inexperience and 3.6% failed for various other reasons, such as disaster and fraud.

12. Levine (2005) in the study “Role of Investment Banking for German Economy” stated that five channels through which financial systems may have an effect on economic growth: Financial intermediaries provide ex ante information, monitor investment, manage risk, mobilize savings and facilitate the exchange of goods and services. Investment bank activities can be attributed to some of these channels. Acquisition of ex ante information on firms or investment opportunities may involve high fixed costs for investors. Financial intermediaries can reduce these costs by utilizing economies of scale in information acquisition or provide higher quality information. Investment banks provide ex ante information to market participants in various ways. First, within the scope of M&A advisory, investment banks specialize in information generation and value determination of companies. This information supports more efficient companies in taking over less efficient companies, which in turn should add to the efficiency of the entire economy. Second, prior to IPOs, investment banks distribute general information about the company to the public, which should reduce adverse selection costs. Moreover, the investment bank’s sell side analysts provide information about shares in the secondary market. In fixed income, investment banks perform rating advisory and issuer evaluation, also a form of information generation. Finally, the market making position, which many investment banks perform on secondary markets, facilitates the efficient use of information.
13. Loayza and Ranciere (2006) in the study "Role of Investment Banking for German Economy" find a significant positive long-run relationship between financial development and output growth. In the short run, however, this relationship is mostly negative. The negative short-run relationship between growth and financial sector development emphasizes the trade-off between financial development and financial stability: Extensive financial development and financial innovation may result in banking or financial crises, higher volatility of output and periods with very high or very low growth. Exchange rate volatility reduces productivity growth in financially underdeveloped countries and increases productivity in financially developed countries. This may be an indication that investment banking helps to hedge exchange rate risk, which in turn may have positive effects on the development of the tradable goods sector in an economy.

14. Mayer & Mathonet (2005) in the study "Can Private Equity Improve Portfolio Performance?" stated that it is important to clarify which type of asset class private equity belongs to, in order to assess the portfolio capabilities. A group of investments may be referred to as an asset class, when this group can be considered distinct from other existing asset classes, and possess a unique risk and return profile. Private equity investments are normally considered part of the group of investments, which are referred to as alternative asset classes. This group of assets refers to non-traditional assets that normally would not be found in a standard private investment portfolio. While many large portfolio managers for long have considered private equity an unique asset class, Mayer & Mathonet (2005) argues that quantitative investment analysis have yet to provide solid proof that this asset class, in fact, has its own risk-return profile. If this argument is true and private equity cannot even be considered a distinct asset class, without a unique risk return profile, the benefits of adding it to an investment portfolio may be limited.
15. Brown & Morrow (2001) in the study "Can Private Equity Improve Portfolio Performance?" stated that numerous opinions exist on private equity's ability to generate superior returns. The reason for this may be due to the unavailability of lengthy reliable data and that the legal requirements for this industry call for less disclosure from the funds. Therefore, much debate has been created over the trustworthiness of specific surveys. The general argument follows that the incentive for investing in private equity is the potential for increased returns relative to traditional publicly traded securities. Further reports that the Yale University's Endowment fund, which are among the largest investors in private equity, believe that investments in private equity can potentially generate incremental returns independent of the performance of the broader market. More specifically, the Yale Endowment fund has achieved annualized returns of 29%, since the interception in 1973 to 2003. Arguments like these summarize some of the expectations that many investors have to private equity as an asset class. However, looking at some of the studies conducted in recent years, a diverging picture seems to emerge.

16. Brealey et al., (2006) in the study "Motives and Effects of Mergers and Acquisitions" stated that there are three categories of conglomerate M & A: product extension mergers, geographic market extension mergers and the other conglomerate mergers. The first type is also called concentric mergers, which means two firms merger or acquire in related businesses in order to broaden the product lines of firms. The second one occurs when two firms, which have no overlapping businesses, merge in different geographic areas. The last kind refers to a pure conglomerate M & A in different business field.

17. Brealy and Myers (2005) in the study "Initial Public Offerings on the National Stock Exchange of India" stated that going public marks a watershed in the life cycle of the firm. While increased equity can support the firm's future plans of growth, the trade off for the firm is that of increased public scrutiny.
In the context of USA the firms may seek private equity in their initial years and only later go for public issues. Firms going public are not seeking money for growth but are rebalancing their accounts after high investment and growth. The post IPO period sees a reduction in leverage as well as investment. They state that going public is a conscious choice that some firms make while some others prefer to remain private. Thus going public is not a natural element in the life cycle of a firm. There are times (windows of opportunity) when the markets could be extremely optimistic about a particular industry and it may be a good time for the firms in that industry to go public. In this study they found firms go public when the equity valuations are high and when these are low; the firms choose the private placement route.

18. Mr. Ayan Banerjee (1995), in the study “Capital Market Access to SMEs in India” stated that innovation is the means by which the entrepreneur either creates new wealth producing resources or endows existing resources with enhanced potential for creating wealth. Innovation has always been the hallmark of SMEs. The prime progression in the economic force of changes is the introduction of innovation culture. Since the innovation process is a recursive heuristic cycle, problems at some stage of development necessitate the need for reevaluation of the earlier stage of the innovation process leading to learning. Innovation is an ongoing effort and the success of the economy (just as is those of any business enterprises) is dependent on its ability to continuously provide innovation. The constraints facing high growth companies and SMEs in accessing equity finance, which in turn inhibits their growth and expansion, thereby impairing innovation and job creation.

19. Mr. Ayan Banerjee (1995), in the study “Capital Market Access to SMEs in India” stated that SMEs can access capital through seven various channels. The non-availability of finance on affordable terms is hindering their growth.
Theoretically, seven modes of finance can be employed— but all have some degree of problem associated with them in providing capital to SMEs. Banks are invariably restrictive in lending to SMEs. Early stage ventures often have a low equity base and lack a visibility in cash flow, which can sustain debt finance. Further, the loans are collateralized, high cost and often are bundled with a delay in receivables. The high informational asymmetry makes it difficult for the debt finance to thrive. With the banks increasingly being in the public eye, there is an increased element of risk averseness. The course of debt financing from a development finance institution has not been a runaway success. Bond finance as an option is as good as negligible even for a large corporate in India, let alone being workable for an SME. The MFI sector is growing but not rapidly enough and certainly not large enough to provide the required capital. The same may be said of the VC industry, which has shown noteworthy evolution— thanks in large part to regulations and India's promise of growth but has to attain greater significance for India to achieve breakaway growth. A large part of the capital required by SMEs still comes from lending by NBFCs and through informal finance— wherein the cost of borrowing is significantly high. Thus, the situation is complicated by the fact that the preferred mode of finance is self— largely due to associated high interest rates.

20. Freear and Wetzel (1988) in the study "Informal Equity Capital for SMEs" stated that due to the challenges many SMEs face in obtaining risk capital from the public equity market and the formal venture capital market, attention is increasingly being focused on the informal venture capital market. Business angels (also known as angel investors, informal investors, and private investors) are increasingly making a strong impact both in terms of value and volume of investment. Typically, these investments are in sectors and stages that are complimentary to those in which institutional venture capital firms focus and are particularly important for startups and early-stage firms.
21. Sullivan and Miller (1996) in the study "Investor of Venture Capital" advise that entrepreneurs should adopt a marketing perspective in raising finance for their business ventures. They argue that adopting a marketing perspective would enable entrepreneurs see potential investors as a market of 'customers' with a broad range of needs, wants and values. By limiting their view of investors to the home economics, as often happens, entrepreneurs may be missing significant segments of the market. The 'customers' should, therefore, be segmented according to their different desired benefits.

To bring to a close, Chapter 3 has covered meaning, importance, process and review of the literature. The subsequent Chapter 4 stands for perspective of Indian small and medium enterprises. As this study is primarily undertaken in the context of Indian SMEs, thus the next coverage has great relevance.

3.5 Bibliography


