

Financial Performance and Access to External Finance: Evidence from UK Private SMEs

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Abstract. SMEs make up a large share of the United Kingdom's economy, but when it comes to external funding, there are a variety of factors that prevent SMEs from accessing the funding, including a lack of corporate disclosure and lack of collateral. Generally, the performance of a firm is considered an important indicator and outside the investors can take the necessary information from them to take their decisions. In addition, financial data from different dimensions show different facets of a company's performance and have different functions in financing decisions. In this paper, we rely on the information revealed by Orbis and Crunchbase and use the Firth logit model to investigate the associations between ROA, OCF/TA and current ratio and the probability of external financing. The empirical results show that financing availability is negatively related to ROA; and there is also a negative relationship for OCF/TA. However, there is no significant relationship between the current ratio and financing availability. The implications of these findings are that, overall, there is a closer link between the impact of SMEs' financial performance on their financing availability to the implications of the pecking order theory than to the implications of the signalling theory.

Keywords: SMEs, external financing, financial performance, pecking order theory, UK private firms

1. Introduction

As a vital foundation of the market economy, SMEs play a key role in terms of the number of enterprises, employment generation and regional economic vitality. As of early 2024, DBT data shows that the UK has 99.85% of SMEs, with the remaining 0.15% being larger companies [1]. With this size, SMEs are well integrated in local labour markets and supply chains and their financial status is important not only for them but also is closely tied to employment and economic resilience. In addition, SMEs tend to have higher information asymmetry (and hence a higher risk of financing constraints) due to the lack of information disclosure and supporting documentation, such as inconsistent reporting, incomplete data and unaudited accounts [2]. Finance for SMEs is one of the important areas of research in the field of corporate finance and accounting. A growing number of studies have focused on SME financing constraints in recent years, but the evidence on the systematic effects of corporate financial performance on the provision of finance is still fragmented due to the lack of and inconsistencies in criteria for measuring SME financing.

In terms of financing accessibility, the thesis of this study is as follows: The financing situation of a firm is mainly determined by two factors. On the supply side, the financial condition of a firm signals to the external investors and their decision to invest depends on the quality of the firm's finances which in turn reflects the firm's ability to raise funds in the market. From the demand side (the perspective of the firm) decisions about financing are also influenced by the financial condition of the firm: management will decide whether to go to the market for financing, depending on the financial position of the firm. As far as these two pathways are concerned, financial indicators may show conflicting impacts. While a strong financial position can give a better impression to outsiders of the quality and solvency of real estate companies, it also can signal that there is plenty of cash available and that companies don't need to borrow from outside, which will limit demand. This will eventually lead to less financing availability. This paper explores the impact of financial indicators across different dimensions on the financing availability of SMEs, whilst further examining which of these pathways primarily governs the influence of financial indicators on financing availability. Corporate Profitability (ROA), Corporate Cash Flow (OCF/TA) and Corporate Liquidity (Current Ratio) are the three indicators that have been selected. This paper believes that to some extent, these three indicators are relevant to the information that a firm needs to communicate to outsiders when requesting financing.

In this paper, a sample of UK SMEs is created using Orbis data on UK private enterprises between 2015-2023 and the three financial performance indicators (ROA, cash flow capacity (OCF/TA) and liquidity level (Current Ratio)) are investigated in relation to financing accessibility within a regression framework (financing accessibility is measured by whether the SME took out a loan in that year: loan obtained = 1; no loan obtained = 0). This paper, based on the above research, offers systematic evidence from UK SME financial data on the impacts of financial performance on financing availability that can contribute to the studies of SME financing constraints. This paper characterizes credit quality of SMEs with three dimensions, namely ROA, cash flow capacity and liquidity, representing profit generation, cash repayment and liquidity, respectively, which are different from using only one dimension as in other approaches. This means that the financial indicators' analysis will be more aligned with the content of information that SMEs are obliged to provide market in the course of seeking financing. Moreover, the authors attempt to determine the exogenous or endogenous determinants in the linkages between financial indicators and financing accessibility based on the empirical analysis results. In this paper, an indicator framework has been provided to enable SMEs to manage their finances and evidence has been provided to support the policy measures to improve access of SMEs to finance.

2. Literature review and research hypothesis

2.1. Financial availability

Previous research has generally focused on how corporate risk affects the supply and terms of corporate financing. Some studies have pointed out that when banks are subjected to shocks, they typically pass on the risk to borrowers, which manifests specifically in a tightening of credit supply to SMEs and an increase in interest rate spreads. This phenomenon occurs primarily in firms characterised by high risk, information asymmetry and insufficient collateral [3]. Furthermore, in the face of macroeconomic shocks, the availability of corporate finance is closely linked to a firm's survival; however, during times of crisis, some firms struggle to secure financing opportunities [4]. In previous research, the concept of financing availability has not been limited to merely 'whether financing is obtained'; financing costs, loan tenors and contractual terms have also been incorporated

into the assessment of financing availability [5]. However, as the focus of this study is on SMEs, and given the lack of detailed disclosure data regarding their financing, we are limited to using 'whether financing is obtained' as the dependent variable.

2.2. Financial ratios

External providers of capital systematically use quantifiable and comparable financial information to assess the quality and risk of borrowers or investment targets, and on this basis design financing agreements and determine whether to provide funds and, if so, how much [6]. This paper interprets the financial performance of SMEs as a set of signals and breaks it down into three dimensions: profitability, cash flow solvency and corporate liquidity levels, with the aim of systematically quantifying the financial performance of SMEs.

Profitability is one of the basic measures of a company's operating efficiency and the sustainability of its profits. The more favorable the ROA, means the better the asset allocation, the more sustainable the business model and the more assured the future cash flows, and the more likely the firm was to be considered a 'financeable entity'. Linking the Small Business Financing Survey to firm characteristics, as done in the example, shows important differences between the characteristics of firms in different groups (e.g., 'approved' and 'denied' and 'discouraged') and illustrates that the firm quality and risk are tightly connected with financing outcomes [7]. Therefore profitability, as a proxy for quality, can serve as a way for firms to overcome financing constraints, and this might be even more important when credit is being tightened or is uncertain. But from the pecking order theory of finance, the more profitable a firm is, the more internal investment it can have in the form of retained earnings and hence less external investment is required. In this respect, firms that have higher ROA do not necessarily have greater need for external financing, on the contrary, they may cut back on external financing because of more plentiful internal financing. Based on the above, the following hypotheses are proposed:

H1a (signalling theory): There is a positive relationship between ROA and the probability for external financing of SMEs.

H1b (pecking order theory): Being able to obtain external financing for SMEs is negatively related to their ROAs.

Operating cash flow gives a truer picture of the repayment ability and cash use of a company, compared to the profit metrics, which is important for SMEs. SMEs typically do not have the necessary collateral or a history of available data to external parties, so it is more important to them whether the company has a steady stream of cash to pay interest, pay back instalments or fund capital utilisation plans. Kaya's study [8] similarly found that SMEs that frequently or occasionally experience late payments are more likely to face financing difficulties. Banks view the cash flow uncertainty caused by late payments as a higher risk, and consequently restrict the supply of loans and offer less favourable lending terms. Consequently, OCF/TA can be regarded as a hard signal of 'cash flow quality and solvency', capable of alleviating external financiers' concerns regarding 'unrealised profits' or 'cash flow disruptions', thereby enhancing access to finance. From the perspective of research on financing accessibility, many studies treat 'whether financing was refused' or 'whether financing was restricted' as core outcome variables, emphasising that access to finance is not entirely determined by corporate demand but is closely linked to screening on the supply side [9]. At the same time, operating cash flow is one of the most direct internal sources of funds for a firm. When a firm's OCF/TA is higher, its operating activities themselves can provide more disposable cash to cover investment, operational and debt repayment needs, thereby reducing the firm's reliance on external financing. Therefore, the following hypotheses can be proposed:

H2a (signalling theory): There is a positive relationship between higher OCF/TA and probability of accessing external financing for SMEs.

H2b (pecking order theory): There is negative relationship between OCF/TA and the probability of SMEs taking external financing.

The current ratio is a measure of the firm's short-term liquidity and working capital buffer and is not only associated with the short-term solvency of the firm but also with the internal financial resilience of the firm in case of financing frictions. The signaling theory suggests that a higher current ratio means that the firm has stronger short-term debt repayment ability and lower liquidity risk, which reduces the information asymmetry and improves the firm's financing ability. According to pecking order theory, the larger the internal buffer of liquidity a firm has, the more likely it will be to use internal funds instead of immediately turning to outside funding when there is a short-term funding requirement. It has been shown that in times of tight credit markets, firms can switch between internal liquidity and external financing [10]. Thus, the effect of liquidity indicators on the access to finance will occur via two counteracting effects. From this an analysis of the following hypotheses is proposed:

The hypotheses were: H3a (signalling theory): The higher the current ratio, the more likely the SMEs will be to get external financing.

H3b (pecking order theory): A higher current ratio is negatively related to the probability of SMEs having access to external financing.

3. Methodology and data

3.1. Construction of the research sample

This study utilised data from Orbis (providing financial data) and Crunchbase (providing funding data), with a sample comprising UK small and medium-sized enterprises (SMEs). The definition of SMEs in this study aligns with the EU definition, namely enterprises with fewer than 250 employees and either a turnover of less than €50 million or total assets of less than €43 million in the preceding financial year. The study period was set as 2015 to 2023 to ensure comprehensive data coverage.

By merging data from Orbis and Crunchbase, this study obtained firm-year panel data. Given the significant differences in financial statement structures and relevant legal regulations between SMEs in the financial sector and those in non-financial sectors, the financial sector was excluded from the sample to prevent any impact on the empirical analysis. Furthermore, data where specific firms or specific years could not be identified due to missing disclosures were excluded; the final sample retained the firm-year structure.

The financing outcomes of the majority of the firms in the sample were not found to change significantly within the time window selected, and it would lead to similar 'financing outcomes' from the same firm being included in the sample repeatedly, which would have an impact on empirical results if one was to perform a panel data regression directly. Therefore, the firm-year panel sample is only used in the supplementary empirical analysis. To reduce the experimental bias of this study, the firm-year panel sample is transformed to become a firm-level cross sectional sample. As for the continuous financial variables (i.e. the explanatory variables in the empirical analysis), this study adopts the average of the data in the window period as the explanatory variables for the financial characteristics of the firm; when it comes to financing, the financing data of the same firm in the window period is highly repetitive and thus this study only considers whether the firm obtained financing during the window period. After these two steps, to avoid data duplication, only one data point is kept per firm for the final sample, allowing for firm level comparisons.

Finally, 1, 008 firms are included in the final sample, with 20 firms getting financing at least once in the window period, and 988 firms not.

3.2. Definition of variables

The dependent variable for this study is 'fund' which is defined as whether or not the firm secured a fund during the sample period. The value of 'fund' is equal to 1 if the firm ended up with financing; the value of 'fund' is equal to 0 if the firm did not end up with financing. This is true financing during the firm-year sample, and financing during the window period for the firm-level cross sectional sample.

In the selection of independent variables, this study applies ROA as a firm's profitability, OCF/TA as a cash flow capacity of a firm and current ratio as a liquidity of the firm. These selections have been explained in the text which precedes.

To mitigate omitted-variable bias, the study employs firm size (Size) as a control variable; in subsequent robustness analyses, firm employee size (ln_emp) will be used in place of firm size for control purposes.

To minimise the impact of outliers on the empirical results, all the above variables have been winsorised at the 1% and 99% thresholds.

3.3. Empirical design

3.3.1. Main analysis

Given that the financing data for most firms in the window period is very similar, the basic sample for the study is a firm-level cross sectional sample. In addition, because the number of firms getting financing is relatively small and is a rare event, the main analysis is based on the Firth logit model which helps to take care of potential biases in the standard logit model for a rare event with small sample size. Moreover, the three financial indicators are of different financial dimensions; therefore, the main analysis is carried out using a different testing approach. The following is the actual formula:

$$Pr(Funded_i = 1) = F(\alpha + \beta Financial\ Ratio_i + \gamma Size_i + \varepsilon_i) \quad (1)$$

This model predicts that if the information content of financial performance is related positively to quality then the coefficient should be positive, while if the information content of financial performance is associated negatively with quality then the coefficient should be negative. The impact of financial indicators on the availability of financing does not necessarily have to be positive, rather, this study aims to find out which of the two mechanisms (signalling or internal funds substitution) is better suited to financing outcomes in the sample.

3.3.2. Robustness analysis

For the main research, further robustness tests are required to confirm whether the results are highly dependent on the specific control variables and model specifications used. This study employed two methods to test this issue: first, by substituting control variables, using the number of employees in place of company asset size. Essentially, the number of employees remains a measure of company size, albeit from a different dimension; if the results of the robustness test remain consistent with the main research, this indicates that the main conclusion is not driven by a single size indicator. The

second robustness test incorporates all three financial indicators into a single model to further examine whether the main findings remain robust under a more stringent joint specification.

3.3.3. Supplementary empirical analysis 1

The analysis in the main research is based on a firm-level cross-sectional sample. Although the sample is more comprehensive, it can only analyse the impact of a firm's overall financial condition during the window period on its access to finance; it is inevitable that financial data obtained after financing is secured is used to explain the issue of access to finance. Therefore, this paper further designs Supplementary Empirical Analysis 1, which utilises the original firm-year sample and employs the following model:

$$Pr(Funded_{it} = 1) = F(\alpha + \beta Financial\ Ratio_{i,t-1} + \gamma Size_{i-1} + \sigma_{it} + \varepsilon_i) \quad (2)$$

Here, σ_{it} represents the annual fixed effect, $Funded_{it} = 1$ indicates whether financing was obtained in a specific year, and the remaining variables are consistent with those in the main study. This supplementary empirical analysis provides additional support for the results of the main regression.

3.3.4. Supplementary empirical analysis 2

Although the sample in the main research is more comprehensive, firm-level aggregate variables may include years following financing. In Supplementary Empirical Analysis 1, a one-period lag variable was introduced to address the time-series aspect. Supplementary Empirical Analysis 2 builds upon this by retaining only the first financing event for each firm within the window period, ensuring that financial data is strictly confined to the period prior to the financing event. Specifically, using a firm-year sample as the basis, we identify the year of the first financing event within the window period for each firm. We define first financing events occurring in 2017 or later as cases, and define observations from non-financed firms in the same year as the case as controls, ultimately retaining 13 cases.

The construction of pre-funding variables for each case or control follows the following rules: data from year t-1 is used where available; if t-1 is missing, t-2 is used; if t-2 is also missing, the search continues back to t-3. Regression analysis is performed using the constructed variables. The regression model is as follows:

$$Pr(Funded_{it}^{PF} = 1) = F(\alpha + \beta Financial\ Ratio_{i,t-1}^{PF} + \gamma Size_{i-1}^{PF} + \sigma_{it} + \varepsilon_i) \quad (3)$$

The strength of this supplementary empirical analysis lies in its strict limitation of pre-financing information, thereby minimising the interference of post-financing information on the empirical study; however, due to its small sample size, it serves merely as a supplementary illustration to the main experiment.

4. Result

4.1. Descriptive statistics

Table 1. Descriptive statistics by funding status

	funded			
	0	1	Total	Test
N	988 (98.0%)	20 (2.0%)	1,008 (100.0%)	
ROA	-0.042 (0.457)	-0.472 (0.613)	-0.050 (0.464)	<0.001
OCF/TA	0.016 (0.325)	-0.367 (0.592)	0.009 (0.335)	<0.001
Current ratio	3.933 (5.426)	2.663 (3.424)	3.908 (5.395)	0.298
Size	8.291 (1.451)	9.138 (0.611)	8.308 (1.444)	0.009

P-values are from group comparison tests.

For the firm-level cross-sectional sample, the results of descriptive statistics (shown in table 1) showed that the mean ROA for firms that did not obtain financing was -0.042, whilst the mean for firms that did obtain financing was -0.472, with a p-value of <0.001 for the difference between groups; the OCF/TA ratio for firms that did not obtain financing was 0.016, whilst the mean OCF/TA ratio for firms that did obtain financing was -0.367, with a p-value of <0.001 for the difference between groups; The current ratio for firms that did not secure financing was 3.933, whilst that for firms that secured financing was 2.663; the difference between the groups was not statistically significant ($p = 0.298$); the size of firms that secured financing was 8.291, whilst that of firms that did not secure financing was 9.138; the difference between the groups was statistically significant ($p = 0.009$). It can be concluded that firms that secured financing exhibited lower ROA and OCF/TA, as well as larger firm size. At the same time, differences in liquidity were not statistically significant between the groups.

4.2. Main research

Table 2. Main results: first logit

	funded		funded		funded	
ROA	-1.577	**				
	(0.327)					
Size	1.116	**	1.113	**	0.921	**
	(0.311)		(0.325)		(0.311)	
OCF/TA			-2.048	**		
			(0.421)			
Current ratio					-0.087	
					(0.101)	

Table 2. (continued)

Intercept	-14.090 (2.907)	**	-14.071 (3.044)	**	-11.655 (2.815)	**
N	965		916		1006	
Wald chi2	26.47		28.54		8.96	
Model p-value	0.00		0.00		0.01	

** p<.01, * p<.05; Dependent variable: funded

For table 2, the first column presents the regression analysis of ROA and financing availability; the results show that the coefficient for ROA is -1.577, $p < 0.01$. The second column presents the regression analysis of OCF/TA and financing availability; the results show that the coefficient for OCF/TA is -2.048, $p < 0.01$. The third column presents the regression analysis of the current ratio and financing availability, with the regression results showing a coefficient of -0.087 for the current ratio, which was not statistically significant. Regarding the hypotheses proposed above, the empirical results support H1b rather than H1a; support H2b rather than H2a; neither H3a nor H3b were supported.

4.3. Robustness analysis

Table 3. Robustness: alternative size control

	funded		funded		funded	
ROA	-1.369 (0.300)	**				
Size(emp)	0.945 (0.314)	**	0.817 (0.315)	**	0.666 (0.303)	*
OCF/TA			-1.867 (0.393)	**		
Current ratio					-0.044 (0.104)	
Intercept	-7.577 (1.284)	**	-7.092 (1.268)	**	-6.050 (1.209)	**
N	964		915		1004	
Wald chi2	21.94		24.07		4.96	
Model p-value	0.00		0.00		0.08	

** p<.01, * p<.05; Size is measured by ln(employees).

In the robustness analysis, the study replaced the measure of firm size from $\ln$ TA with $\ln(\text{employees})$. The specific results are shown in Table 3: ROA: -1.369, still significant; OCF/TA: -1.867, still significant; current ratio: -0.044, still not significant. In the robustness analysis involving the replacement of empirical variables, the conclusions of the main study remain robust

Table 4. Robustness: joint specifications

	funded		funded		funded	
ROA	-1.540	**			0.922	
	(0.333)				(0.725)	
Current ratio	-0.039		-0.019			
	(0.072)		(0.060)			
Size	1.168	**	1.158	**	1.069	**
	(0.321)		(0.338)		(0.317)	
OCF/TA			-2.003	**	-3.125	**
			(0.433)		(0.869)	
Intercept	-14.382	**	-14.377	**	-13.637	**
	(2.975)		(3.125)		(2.958)	
N	963		916		916	
Wald chi2	26.49		28.57		30.12	
Model p-value	0.00		0.00		0.00	

** $p < .01$, * $p < .05$; Dependent variable: funded

In this study, a simultaneous modelling approach is used to test the robustness of the central results. The results of the specific objectives are indicated in Table 4. The simultaneous model of ROA and current ratio is presented in the first column, in which ROA is -1.540, which is still significant, but the current ratio is -0.039, which is not significant. The second column is the combined model (OCF/TA and current ratio), which results in an OCF/TA of -2.003 which is significant, and a current ratio of -0.019 which is not significant. The third column shows the results of the combined model of ROA and OCF/TA resulting in the ROA of 0.922 with no significance and OCF/TA of -3.125 with significance. The direction and significance of the variables in this robustness analysis seem to be more or less similar to the main research except the combined model of OCF/TA. The result of this study indicates that this is because the use of ROA has a standalone effect and when using ROA in combination with OCF/TA, ROA's explanatory power may be part of the explanation provided by OCF/TA, thereby reducing its standalone effect.

4.4. Supplementary analysis 1

Table 5. Supplementary analysis 1

	(1)	(2)	(3)
	Model 1	Model 2	Model 3
ROA	-1.484*** (0.269)		
Ln TA	0.841*** (0.268)	0.720** (0.285)	0.342* (0.202)
OCF/TA		-1.535*** (0.340)	
Current ratio			-0.065 (0.049)
Constant	-14.273*** (3.058)	-12.970*** (3.142)	-8.759*** (2.119)
Observations	4,405	4,027	7,515
Year FE	Yes	Yes	Yes
Clustered SE	Firm level	Firm level	Firm level
N	4405	4027	7515
Pseudo R2	0.124	0.0906	0.0377

*** p<0.01, ** p<0.05, * p<0.1

The study aims to extend the main analysis from a firm-level cross-sectional perspective to a firm-year setting, to examine whether the direction of the findings remains consistent. The results are shown in the table 5, where the lagged ROA is -1.484*, the lagged OCF/TA is -1.535*, and the lagged current ratio is -0.065 but not significant; These supplementary results continue to support H1b rather than H1a, and H2b rather than H2a, whilst there remains no support for H3a and H3b. It can be concluded that even when switching to a firm-year setting and using lagged variables, the negative relationship between ROA and OCF/TA persists, whilst the current ratio continues to play no stabilising role. To a certain extent, this supplementary analysis supports the conclusions of the main study.

4.5. Supplementary analysis 2

Table 6. Supplementary analysis 2

	(1)	(2)	(3)
	Model 1	Model 2	Model 3
ROA	-1.508*** (0.553)		
ln TA	0.804** (0.355)	0.606* (0.339)	0.280 (0.233)
OCF/TA		2.296 (3.717)	
Current ratio			-0.018 (0.064)
Constant	-13.935*** (4.059)	-12.090*** (3.946)	-8.428*** (2.440)
Observations	3,185	2,968	3,836
Year FE	Yes	Yes	Yes
Clustered SE	Firm level	Firm level	Firm level
N	3185	2968	3836
Pseudo R2	0.0922	0.0382	0.0158

*** p<0.01, ** p<0.05, * p<0.1

In Supplementary Analysis 2, the researchers required that the financial information come from before the financing event. Table 6 revealed that the ROA = -1.508* (significantly negative), OCF/TA = 2.296 (not significant) and current ratio = -0.018 (not significant). The results in terms of ROA and current ratio are consistent with earlier presented empirical analysis, however, the direction and significance of OCF/TA is different. Thus, the empirical results provide an affirmation of the main research.

Also, it is important to note that the financing events in this empirical analysis are very rare, making it difficult to reach a contrary conclusion. as the OCF/TA findings are inconsistent with the earlier presented empirical findings, so that they can merely provide an additional explanation for the main empirical results.

5. Discussion

Overall the results from the empirical analysis tend to validate the hypothesis that financing is more likely within the weaker financial performance SMEs; at least, the analysis has strong explanatory power with respect to ROA and OCF/TA. This suggests that the results are inconsistent with the predictions of signalling theory, but are closer to those predicted by the pecking order theory. Moreover, the empirical analysis found that the current ratio was not significant; it means that the liquidity position of a company in the short term is not a good predictor to differentiate companies that have arranged financing and those that have not. The study also revealed that 'size' was a consistent positive correlation in the empirical analysis and this correlation was significant. This means that, to some extent, the size of a SME also impacts on their access to finance. This can be understood to mean that access to finance for SMEs is a function of both which SMEs need it and which SMEs have chances to access it. This is not to say that there is a clear positive relationship between the provision of finance to SMEs and firm size. While SMEs are on average more likely to demand too much credit than larger firms, when confronted with a financial crisis, the impact of the contraction of credit is by no means 'disproportionately harmful to small businesses' but rather more severe for riskier borrowers [11]. Thus, financial attributes of a firm are also a determining factor. In later papers, the different economic meaning that each of the SME's profitability, cash based solvency and liquidity position would represent would be discussed.

The results of ROA show that profitability does not positively influence the probability of SME getting external finance, instead they show that a higher ROA is associated with a lower probability of financing. This is because a firm with a higher ROA has greater internal retention and self financing power, and is thus less dependent on external financing. This does not mean that external investors are more interested in less profitable companies, but rather that the internal sources of financing are not enough, and the SMEs seek to external financing sources.

Negative and stronger results for OCF/TA show that the higher the cash flow is, the less the firm will need external financing. This finding is consistent with the Pecking Order theory predictions that financial indicators are related to financing availability. This is because cash flow capacity truly represents the situation of funds in SMEs for the purpose of self financing and is more closely related with financing decision itself. Therefore, if a firm's cash flow is strong enough to meet its operational and investment requirements, the need for external financing will be less; on the other hand, if the cash flow is weak, the firms will have to go for financing and it will be question of survival. Moreover, the OCF/TA ratio is still highly significant in the combined model even after accounting profit is introduced, therefore, cash flow capacity is a better indication of the difference between the pecking order theory and the signalling theory than accounting profit.

From the empirical findings, no one pathway could be considered to be accepted with respect to the liquidity level of the firm. The study proposes that the current ratio is more appropriate in capturing the short-term debt repayment as well as operational turnover and not necessarily directly related with the ability to finance long-term assets or external financing needs of the firm. Moreover, in SMEs, it is possible that this indicator can be subjected to industry differences, operational models and the structure of inventories and accounts receivable, the informational content in which is not as clear as ROA and OCF/TA.

The study revealed that, when it comes to availability of finance for SMEs, external financing is not a 'simple reward' for financial health, but seems to be a response to differences in the internal capital levels of SMEs. This implies that the availability of finance for SMEs is more demand-driven (i.e. dependent on SME financing decisions) and less supply driven. But, firm size is positively and

significantly correlated with finance in empirical analysis. Some implications for the research: bigger SMEs may have more information available and may more easily access external capital; bigger enterprises also implies more collateral and more 'interesting' to external investors, making it easier for them to secure investment. This analysis is important as a piece of evidence that indicates the impact of signalling theory on corporate financing.

6. Conclusion

This study uses UK SMEs as a sample to explore the effect of various aspects of financial indicators on the financing availability of SMEs. The main analysis is done with the Firth logit model and is complemented by further tests with instrumental variable, joint, firm-year and pre-funding approaches. Overall, the results suggest that the effect of the various financial dimensions on financing availability is mixed.

The study revealed that the explanation that external financing is a reward for good internal financial performance is not sufficient; similarly, the higher ROA and OCF/TA leads to lower accessibility of overall financing. Therefore, it seems that financing has taken place because of the interaction of both internal (funding constraints) and external (financing availability) factors rather than being driven by financial performance alone. In addition, the varying degrees of significance when all three dimensions of financial value are used in the same model indirectly validates that the explanatory power of dimensions of financial value on financing availability differs depending on the dimension of financial value, with the current ratio not being consistently significant. Thus, the purpose of this empirical study is to help move the understanding of the relationship between SME financial performance and financing from a general level to a more in-depth level.

This study's empirical analysis nevertheless has certain limitations. Firstly, the data is based on external financing data disclosed on the Crunchbase platform and may not be exhaustive of all financing activities and omissions in the data could cause bias. In addition, due to the sample being taken from SMEs in the UK the findings in this study may not be applicable to other geographical areas where the financing activities of companies may be more supply driven. Also, the empirical analysis provides only a relative assessment of the strength of financing demand and supply, and does not identify or analyse the individual mechanisms. Future research can further differentiate between financing demand and supply, sub-categorise financing types as well as identify discrepancies in the mechanisms under longer-term or more extensive panel settings. However, this paper shows that SME financing is not just a selection process towards firms that have better financial performance, but it is also the outcome of internal constraints on the funding of the firm and the availability of external financing.

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